# The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

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*Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.*


Contents.



# Professional Notes.

The Chancellor of the Exchequer has appointed the following to be a Committee to inquire into the National Debt:—Lord Colwyn (Chairman), Sir Charles Addis, Sir Alan G. Anderson, Sir Arthur Balfour, Mr. Henry Bell, Mr. J. W. Bowen, Mr. Fred Bramley, Mr. W. L. Hichens, Mr. J. A. Hobson, Mr. H. B. Lees-Smith, Sir William McLintock, Sir Josiah Stamp, and Mrs. Barbara Wootton. Most of the names are well known in various public capacities. Sir William McLintock is the only practising member of the profession included in the Committee. Sir Josiah Stamp is the Society's Examiner in Economics, and his capacity for important public work appears to be without limit.

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The Lords Commissioners of His Majesty's Treasury have appointed a Committee to consider what improvements, if any, can be made consistently with the requirements of Parliamentary accounting in the detailed accounting methods of Government Departments, particularly with a view, while maintaining an effective control over expenditure, to simplifying the forms and processes of accounting. The following constitute the Committee:—Sir R. Russell Scott, K.C.B., C.S.I. (Chairman), Controller of Establishments, His Majesty's Treasury; Mr. F. G. Bowers, C.B.E., A.C.A., Accountant-General, Ministry of Labour; Mr. G. H. Stuart Bunning, O.B.E., Vice-Chairman of the National Whitley Council; Mr. F. N. Dixon, Secretary, Exchequer and Audit Department; Mr. G. E. Foot, O.B.E., Member of the National Whitley Council; Sir Gilbert Garnsey, K.B.E., F.C.A., of the firm of Messrs. Price, Waterhouse & Co.; Mr. R. A. Grieve, O.B E., Assistant Secretary, His Majesty's Treasury; Mr. M. Webster Jenkinson, C.B.E., F.C.A.; Sir James Martin, F.S.A.A., of the firm of Messrs. Martin, Farlow & Co.; Mr. E. J. Strohmenger, C.B., Accountant-General, Ministry of Health; Mr. A. E. Watson, C.B.E., Treasury Officer of Accounts, His Majesty's Treasury; with Mr. G. Ismay, Assistant Principal, His Majesty's Treasury, as Secretary.

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In our last issue there appeared in this column some observations in regard to the efficacy of the power of surcharge by a district auditor of the Ministry of Health, and we drew attention to the debate in the House of Commons on the "Poplar Order." At the time this debate was taking place an inquiry was being held at Folkestone by an inspector of the Ministry in regard to an application of the town council for a provisional order for the accounts of the council to be audited by a district auditor, and also to authorise expenditure for certain purposes not provided by the Act of Parliament. It does not appear from the long report which is before us that any allegations whatever were made, either in regard to the keeping of the accounts by the borough treasurer or as to their audit. All we can gather from the somewhat confused statements of councillors who appeared before the inspector is that there are two parties in the borough, one of which wishes to go ahead with various schemes, the other being desirous of putting the brake on. It seems to be considered that, in spite of the lessons of Poplar, a district auditor of the Ministry of Health will make an excellent brakesman.

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The annual report and accounts of the Institute of Accountants and Actuaries in Glasgow, incorporated by Royal Charter in 1855, are before us. The number of members of the Institute at the close of the year 1923 was 1,206. As the result of a suggestion made to the Council, a course of six lectures entitled "Notes on English Law as differing from Scots Law, with particular reference to

questions sometimes encountered in Accounting and Commercial Practice," was delivered by Mr. Hector Burn Murdoch, LL.B., Advocate, in November and December. It has been arranged that the lectures will be duly published in book form.

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The first accounts of the London and North Eastern Railway Company, of which Mr. C. Lewis Edwards, F.S.A.A., is chief accountant, have been issued to the stockholders. The audit certificate is somewhat of a novelty, as owing to the various interests absorbed into the London and North Eastern Railway Company it is signed by no less than twelve auditors, who are now to be reduced to two with the assistance of two others for the Manchester and Scottish areas respectively.

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In the March issue of the *Bradford Chamber of Commerce Journal* appears a review of the work of the accountants' section of the Chamber during 1923, and a perusal of this review shows the value of the section to the Chamber, and the amount of useful work to the commercial community which can be performed when members of our profession get together in the public interest.

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Several prosecutions by the Inland Revenue have taken place recently in connection with alleged income tax frauds. In the case of Samuel Harris, a diamond merchant, who was convicted at the Central Criminal Court, a curious allegation was made in regard to stock valuation which will be found in the short report we give of the proceedings. Reading the judgment of Mr. Justice Shearman, it would appear that the accountant in the case stated that the method of valuation was not unknown in the commercial world. The Judge rightly said that it was a method that had to be stopped, and we are quite at a loss to know that any person of authority or possessing common honesty has ever given his sanction to a procedure which is contrary to all the ethics of professional practice.

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In another case, that of the prosecution of a director of a company called "Inecto Limited," who was charged with having conspired with his brother (not in custody) to defraud the Revenue of income tax and excess profits duty, the jury acquitted the defendant of having taken part in the alleged conspiracy. The Judge remarked that he thought it right to say that Mr. Beck, of the Special Inquiry Department of the Inland Revenue, had conducted the investigations and had given evidence in a way deserving of commendation.

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Several important cases relating to the accounts of public companies were decided during last month. Perhaps the most important was that of *Stapley* v. *Read Brothers, Limited*, where goodwill to the amount £140,000 had been written off out of profits, and ultimately, in the year 1918, the item of goodwill entirely disappeared from the company's books. The writing off was done by creating a reserve and utilising the reserve to extinguish the goodwill. In 1921 the company commenced to make losses, and at the end of 1922 the debit balance on profit and loss account amounted to over £20,000. In 1923 there was a net profit of a little over £13,000. This the directors decided to use for the payment of preference dividends which had accrued up to December 31st, 1923, thus absorbing £11,500 and leaving about £1,900 to be carried forward. The directors in their report made the following recommendation with regard to the profit and loss balance from the preceding year:—

> "That the debit balance on profit and loss account as at December 31st, 1922 (£20,504 16s. 6d.), be carried to suspense account and written off against a reserve of £40,000, to be created by writing back to reserve £40,000 of the profits applied in the past in writing off goodwill (goodwill being restored in the balance-sheet as an asset at that figure), leaving a balance of £19,495 3s. 6d. standing to reserve."

An action was brought to restrain the company (1) from paying a dividend until the debit balance on profit and loss account had been discharged; and (2) from treating as profits available for dividend any profits originally applied in writing down goodwill and afterwards written back.

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Mr. Justice Russell was quite clear that the first point was covered by the views expressed by the Court of Appeal in *Ammonia Soda Company, Limited*, v. *Chamberlain*, and he accordingly refused the injunction asked for. The question of the treatment of the goodwill was, he said, not covered by direct authority. In his opinion there was nothing in the Companies Acts nor in the constitution of the company to prevent the shareholders, if they thought fit, writing back to profit and loss account so much of the depreciation written off goodwill as had been proved to be in excess of proper requirements, and in this case it was admitted that the value of the goodwill was at least £40,000.

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In explanation of his decision, His Lordship said that if the company had retained the goodwill as an asset in the balance-sheet, and instead of writing it off had carried the profits to a goodwill depreciation reserve fund, it would have been at liberty at any time to distribute those profits, at all events, to the extent to which the reserve fund exceeded the amount of the actual depreciation, and the question was whether it made any difference that, instead of placing the profits to a reserve account, they had been applied in writing off goodwill. The answer he considered depended on the further question: Has the company finally and unreservedly capitalised those profits so as to prevent it from restoring them to reserve and dealing with them as profits? In his opinion the shareholders never intended to, nor did in fact, bind themselves for all time and in all circumstances to give up their claims to such profits and to treat them as capital only. Judgment was

accordingly given in favour of the company and the injunction refused. The circumstances of this case are very unusual, and the decision, if treated as a precedent, might be somewhat dangerous. For instance, there seems to have been no inquiry as to whether the other assets of the business were worth their full book value.

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Another question of a somewhat unusual character arose in the Court of Appeal in the case of *Gloucester Railway Carriage and Wagon Company, Limited*, v. *Commissioners of Inland Revenue*. The company were manufacturers of railway wagons, some of which were sold on customers' orders and some on hire-purchase agreements, but at the end of the war the directors decided to close the hire-purchase part of their business and they accordingly sold off all the wagons which were formerly on hire-purchase. The price realised showed a profit of £148,000, as compared with the book figure. This was claimed by the Inland Revenue as a profit liable to income tax, and the Special Commissioners upheld the assessment. The company, on the other hand, contended that the hire-purchase business was a separate business which had been wound up and that, in any event, the sale price of the wagons was a realisation of plant.

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By a majority (the Master of the Rolls dissenting) the Court decided that the profit made was liable to assessment, and dismissed the appeal. Mr. Justice Warrington in delivering the majority judgment said the Court was bound by the decision of the Commissioners on a question of fact, and he could not see why the question whether a man carried on one business or two separate businesses could be anything other than a question of fact. He thought there was a clear finding of fact that the company was carrying on one business and making a profit, of which the sum in question was a part, and on that decision it seemed inevitable that this sum was liable to tax. It did not matter whether the company applied the sum as profits or in any other way.

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The Master of the Rolls in dissenting said that in his view the Commissioners had not decided a pure question of fact, but had based their decision also on the statutes regulating the taxation appealed from, and in his opinion their decision was open to review. On the merits of the case he found it impossible to treat the sum realised as ordinary profits of the company. It was the sum realised on the sale of accumulated plant. To use a metaphor, they had cut down a tree and had not merely gathered the fruit of it. This argument seems rather weak. A hire-purchase contract involves a sale as well as a hire. The proceeds of the hire is therefore only part of the fruit.

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In an appeal by the Crown against the decision of the Commissioners of Inland Revenue at Sheffield (*Commissioners of Inland Revenue* v. *Doncaster*), a curious position was disclosed. In 1911 the firm of Doncaster & Co. was formed into a private company with four shareholders, who were also the directors. A fund was created to equalise dividends, and in 1919 the company in general meeting authorised the directors to distribute the fund amongst the shareholders, either in cash or in fully paid preference shares at the option of the directors. (The fact that the shareholders and directors are the same is not recognised in law.) Subsequently a resolution was passed that the payment should be made in cash and should be placed to the credit of the directors on their loan accounts in proportion to the number of shares held by each. The total amount involved was £20,000. Although the money was left in the company the directors had power to draw it and to deal with it as they chose, and they were credited with interest from time to time.

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The Sheffield Commissioners decided that super tax was not payable on the amount in question, and in support of this decision it was pleaded that there had always been an amount left in the accounts of the directors exceeding the sums paid in under the equalisation of dividends fund, and before the Crown could succeed it must be proved that there had been a release of the income, which could only be effected by the declaration of a dividend, and no such declaration had been made.

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In delivering judgment in favour of the Inland Revenue Mr. Justice Rowlatt said that there had been no increase in capital, but there had clearly been a payment of undivided profits to the shareholders. If preference shares had been issued the position would have been different, as the case of the *Commissioners of Inland Revenue* v. *Blott* would then have applied. The fact of crediting the amounts to the directors' loan accounts was a complete payment, and the amounts were liable to super tax.

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Mr. Justice Russell had before him last month, in the case of re *Winget Limited*, the question whether corporation profits tax assessed on a company is preferential in a winding up. Under sect. 209 of the Companies (Consolidation) Act, 1908, the debts specified as preferential include "all assessed taxes, land tax, property or income tax assessed on the company" and not exceeding in the whole one year's assessment. Corporation profits tax was imposed by the Finance Act, 1920, and it was claimed that sect. 209 did not apply to any assessed tax imposed for the first time subsequently to 1908. His Lordship was not prepared to take that narrow view of the matter. The words "all assessed taxes" were wide words, and he saw no reason for confining them to such assessed taxes as existed when the Companies Act was passed in 1908. It could be shown that if the words "all assessed taxes" were used in the limited sense of the words there would only survive, as a preferential claim, the inhabited house duty. He accordingly decided that corporation profits tax was preferential.

# Simplification of Income Tax Forms.

The Departmental Committee appointed to consider the simplification which might be practicable under the existing law in the return forms, claim forms and notices of assessment issued in connection with income tax and super tax, have now issued their report. In dealing with the matter the Committee invited recommendations from a number of professional and other associations including the Society of Incorporated Accountants and Auditors, and the various bodies of Chartered Accountants. Witnesses also attended before the Committee for the purpose of supporting and explaining the recommendations put forward. From the wording of the report it was evidently intended to publish as an appendix copies of the letters and memoranda submitted to the Committee, but this decision was subsequently reversed and only the names of the bodies who submitted written memoranda and of those who appeared before the Committee as witnesses are included in the appendix. The reversal is disappointing, as the proposals submitted would have been of great interest.

The Committee state that they are unable to recommend any far-reaching or fundamental re-casting of the forms. They point out that while it is easy for the individual tax-payer to suggest alterations which would meet all the requirements of his case, it is a far different problem for the Board of Inland Revenue to meet the cases of the vast multitude of tax-payers whose circumstances are of infinite variety. The general effect of the report is that no substantial alterations are recommended except in the case of the return form under Schedule D. The proposal is that this form should be doubled in size, the explanatory notes appearing on the left hand page and the spaces for particulars on the right. Instead of repeating the particulars of untaxed income under the head of "Total Income from All Sources," the total only of the untaxed income is brought forward and included with the taxed income. It would have been an advantage, however, if, instead of showing the untaxed income total at the top of the page it had been brought in at the bottom so as to enable a separate total of the taxed income to be shown on the form. The only other alteration of importance in this return is that the allowance for wear and tear is deducted from the average profits of the trade or profession at the top of the page instead of being deducted from the total taxable income at the bottom as hitherto. This is a distinct improvement.

On the subject of reducing the number of forms the Committee is of opinion that real simplification would not be obtained by consolidation, as the result would be that one form would have to serve a number of purposes. The tendency of the Board of Inland Revenue has been in the opposite direction, viz, to devise separate forms for separate classes of cases as far as possible, and in this the Committee express their concurrence. The real point, it seems to us, is not the number of forms which the Inland Revenue may have at their disposal, but rather that as far as possible each individual should be supplied with one form sufficiently wide to cover his whole income, and not with a number of forms as is often the case at present. In other words, the aim should be to have one form so devised as to cover the more complicated cases, and other simpler forms which would be applicable to cases with less complication, and to use discrimination in the use of the forms so that each tax-payer should receive the one most suitable to his case. Recommendations were placed before the Committee with this end in view, and we observe the report states that the most important consolidation advocated was the amalgamation of Forms D and E, put forward by the Society of Incorporated Accountants and Auditors. The Committee state that "to a comparatively small number of persons in good positions it might be more convenient to deal with salaries and other income on one form, but with regard to the mass of employees their forms should be limited as far as may be to their income from employment." Here, it seems to us, is a clear case of the need for discrimination above referred to, and it is fairly clear that this discrimination has not been exercised in the past, as the Committee say that, while they are in favour of specialisation of forms as against consolidation, they "cannot help observing that the fact that the return forms and some of the claim forms are issued by inexpert local officials, whose standard of efficiency varies greatly, limits the number of special forms which can be provided to meet special circumstances." The system, according to the Committee, is that the return forms are issued generally by untrained local officers who act for small areas, and are employed only to a limited extent in the work of computing actual liabilities and reliefs, and the Committee "have been acutely aware throughout the whole of their inquiry that this is a factor which checks simplification."

The number of return forms and assessments sometimes received by persons having a business or profession, and holding a number of directorships, and probably also owning properties in various localities, is exceedingly confusing, and it was hoped that something might have been done to simplify matters, but the only modification which is likely to be made is that the Board of Inland Revenue "hope to make arrangements to gather up from the various local authorities the particulars of each individual's income and to place the arrangement for the apportionment of the allowances to which he is entitled exclusively in the hands of one of them." This will certainly simplify the method of dealing with allowances which in the past has been very troublesome, but it would be an additional advantage—and one that ought not to be impracticable—if the assessments could also be gathered together and issued from one office so that the taxpayer should receive the whole of them at the same time, and not one by one as is usually the case. To facilitate this the taxpayer could be asked to state the locality from which he wished to be assessed, and to indicate clearly on his return the various districts from which his income arose.

On the subject of reclaims there is one useful recommendation, viz, that when a smaller or a larger amount than that claimed is remitted, a statement should be furnished explaining the discrepancy. In the past this rather obvious necessity has been conspicuous by its absence, and has caused much needless correspondence.

The Committee make some recommendations for improvement in the form of the notice of assessment, but it is still very far from explicit and could easily be improved. The tax payer is still required to perform some feats of mental calculation as hitherto, and there is one obvious omission. There should clearly be an inner column on the form for adding up and carrying out in one figure the total of the deductions for insurances, &c. Why some of the recommendations put before the Committee in regard to this form have not been adopted is somewhat mysterious, as it is difficult to imagine any possible objection to them. The consequence is that the assessments issued on the revised form will continue to be something of a puzzle to the average taxpayer. Accountants, however, have no cause to complain as they have often to be consulted in order to unravel the figures.

The paragraph of the Report dealing with the question of super tax is rather incomprehensible. It is pointed out that a suggestion was put forward that the return for super tax might be dispensed with by making the return of total income for the purpose of allowances serve for super tax also. The Committee state that under the existing law this is impossible, and add: "The return of total income for the purpose of income tax allowances is made largely by way of forecast at the beginning of the year and may be falsified by the result. Dividends, for example, may be higher or lower than anticipated. The return for super tax, so far as tax-deducted income is concerned, has to be on the income of the past year. Alike from the point of view of the Revenue and of the subject these results must be awaited." In the first place the super tax return and the return of total income for allowances are called for at the same time, and so far as the tax-deducted income is concerned are in practice filled up on identical particulars. We observe in the new form of return of total income that the note against "Interest and Dividends" asks for the amount of income which may be expected for the year then current, but in the explanatory notes it is stated that it will generally be sufficient in the case of taxed dividends if the gross amount received in the preceding year is returned. The recognised practice in the past—which will doubtless continue—has been to fill in the preceding year's income, which is the only known figure at the time, and is, moreover, the figure required for the same year's super tax return.

On the whole it would appear that the Committee felt they were handicapped by small legal technicalities in recommending modifications which might otherwise have commended themselves to their judgment, and as a consequence the result of their labours is a little disappointing. It would have been better if the terms of reference had left them a freer hand.

# The Slow Progress towards Standardisation.

Now that more than two years have elapsed since Sir Josiah Stamp's exhortation to accountants to disclose the information furnished by their clients' accounts and to place it at the disposal of the community for statistical purposes, it is possible to consider afresh the objections which were raised to the plea at the time. It was pointed out that appeals for standardisation could only be directed to those who were actually in control of joint stock companies' accounts or to the actual proprietors of sole traders' concerns. This answer cannot, of course, be gainsaid. The accountant, quâ auditor, has no power of re-drafting a company's accounts with a view to assisting standardisation. The accounts are the accounts of the directors, and they have a perfect right to render a report of their stewardship in any form they please. The alternative to standardisation which was suggested at the Liverpool Conference, namely, that of providing the economist with statistical data without disclosing the names of the companies concerned appears no nearer to fulfilment. Indeed it becomes increasingly dependent upon the first reform of standardisation, for until that is achieved the theories deductive and inductive which might be drawn from comparative costs must bristle with fallacy and render the statistician's work of little value. It would seem to be absolutely essential that all companies in each particular industry must first agree upon a standardised method of accounting, and, further, that they must adopt an accounting terminology which cannot possibly lend itself to equivocation. In none of these matters has much progress been made. Standardisation is in no sense measurably nearer to attainment than it was two years ago, and yet conditions of trade during the interval that has elapsed have rendered the need for full disclosure far more imperative.

A curious circumstance has, however, arisen during the same period—one that reveals an avenue that has not yet been fully recognised as perhaps the easiest road along which serious steps towards standardisation may be directed. That circumstance is the comparatively slight, yet highly commendable, success which has attended the efforts of the Rubber Shareholders' Association. The work of this association has already received the publicity it deserves, and it is not intended to recapitulate the details of its struggles at this point. Reference to the work of the association must be made, however, in order to draw attention to the fact that further progress towards standardisation will probably only be effected by the general adoption of the association's methods. The accountancy profession cannot bring its adoption about in the ordinary course of practice; the boards of companies will have none of it—save the notable case of a board on which one of the most ardent supporters of standardisation has a seat. It is obvious, then, that the shareholder must be regarded as the one to whom the benefits of the movement must be fully explained, and as the one

through whom the success of the movement will ultimately be brought about. The co-operation and efforts of the accountant and the economist must be focussed in this direction. They must support the formation and the work of associations similar to that of the rubber shareholders. Individual efforts of shareholders will probably avail little for some time to come, and yet the enlightenment of the average stock-holder—whose present participation in the administration of his company consists of little more than a vote of thanks to the board—must assuredly bear fruit. The formation of a shareholders' association for every industry will undoubtedly result in the eventual introduction of a system which will give the statistician the data he requires for the assistance of each of our staple trades. The first efforts of these associations will have to be devoted to crushing out the abuses to which holding companies' accounts in particular lend themselves. One result of the abolition of these hindrances to any standardisation of accounts will be the final breaking down of the system of condensation referred to in *Galloway* v. *Schill, Seebohm & Co., Limited.* Such a reform will do much to remedy that absence of statutory requirements in the matter of published accounts which so minimises the usefulness of sects. 26 and 113 of the Companies Act, 1908. Neither of these sections—the only two which refer to the accounts of public companies—prescribes the form or contents of a balance-sheet. Sect. 26 refers to a statement "in the form of a balance-sheet" without laying down what that form shall be. Sect. 113 provides that the auditors shall report on "every balance-sheet" laid before the company in general meeting. If standardisation supplies the definition of a balance-sheet which is lacking in the Act, then it should assist in putting an end to the abuses which may be cloaked by condensed accounts and which are conveniently concealed from the shareholders by means of the warning that to give detailed accounts assists competitors.

It may perhaps be asserted that the progress of the Rubber Shareholders' Association has been slow. This cannot be denied, but yet that association has made greater strides towards the adoption of standardised accounts than any other body. When the association put forward its three postulates for the first time it met with so little response that open hostility would probably have been welcome. But it was not deterred. Its second appeal was broadcast recently and met with the reception that should have been accorded to the first. It won a sustained Press. It has received sympathetic reference from the chairmen of several rubber companies, and it has been fiercely denounced by others. Both evidences of awakened interest must be gratifying to the association, for the hostility in the case of rubber companies is said to be traced to commercial agency directors, who naturally resent the standardisation of the accounts of companies from which they receive two classes of remuneration—directors' fees and agency commission. This open hostility can only serve to arouse the shareholder from his lethargy and cause him to inquire into the objects of the association, and incidentally to curb the abuse to which the agency system lends itself in that particular industry. This comparative success of one association of shareholders must direct attention to the formation of similar bodies. The enlistment of the power which lies in the hands of shareholders seems to be the only course of action in which the protagonists of standardisation can hope to meet with any response in their most difficult task.

## Society of Incorporated Accountants and Auditors.

### COUNCIL MEETING.

A meeting of the Council was held in the Council Chamber, 50, Gresham Street, London, E.C., on Thursday, March 27th, when there were present:—Mr. G. S. Pitt (London), President, in the chair; Mr. J. W. Blackham (Birmingham), Mr. E. W. E. Blandford (London), Mr. W. Claridge, M.A., J.P. (Bradford), Mr. J. M. Fells, C.B.E. (London), Mr. A. E. Green (London), Lieut.-Colonel James Grimwood, C.B., D.S.O. (London), Mr. Thomas Keens, M.P. (Luton), Sir James Martin, J.P. (London), Mr. Henry Morgan (London), Mr. C. Hewetson Nelson, J.P. (Liverpool), Mr. James Paterson (Greenock), Mr. A. E. Piggott (Manchester), Mr. G. E. Pike (London), Mr. H. Toothill (Sheffield), Mr. W. T. Walton, J.P. (West Hartlepool), Mr. F. Walmsley, J.P. (Manchester), Mr. E. Whittaker, J.P. (Southampton), Mr. W. McIntosh Whyte (London), Sir Charles H. Wilson, LL.D., M.P. (Leeds), Mr. A. E. Woodington (London), and Mr. A. A. Garrett, B.Sc., Secretary.

Apologies for non-attendance were received from Major G. A. Evans, J.P. (Cardiff), Vice-President; Mr. J. H. Bailey (Blackburn), Mr. D. E. Campbell (Wolverhampton), Mr. D. Hill Jack, J.P. (Glasgow), Mr. Alan Standing (Liverpool), Mr. Richard Smith (Newcastle-on-Tyne), Mr. A. H. Walkey (Dublin), and Mr. F. Ogden Whiteley, O.B.E. (Bradford).

#### Resignation.

A letter was read from Mr. J. H. Bailey (Blackburn) resigning his seat on the Council. The resignation was accepted with regret, and a cordial vote of thanks was passed to Mr. Bailey for his long and able services to the Society.

#### New Member of the Council.

There being two occasional vacancies in the number of the Members of the Council, it was unanimously resolved to fill one such vacancy until the next General Meeting of Members by the election of Mr. Arthur Collins, Fellow in public practice, of 20, Abingdon Street, Westminster, Birmingham, Liverpool and Cardiff.

#### Deaths.

The Secretary reported the death of the following Members:—Mr. Thomas Bridgwater (Fellow), Birmingham; Mr. Norman Waddell Gracey (Associate), Buenos Aires; Mr. William McIntosh (Fellow), Glasgow; Mr. Nusserwanji Rustomji Mistri (Fellow), Bombay; Mr. Charles William Rawlinson (Associate), London; Mr. Charles Edward Tweedale (Associate), Southend.

#### Annual General Meeting.

The Annual General Meeting of Members was fixed to take place on May 13th, 1924.

#### South African Society of Accountants' Bill.

The Parliamentary Committee reported in regard to the position and progress of this Bill.

Other important business was transacted.

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At a Special Meeting of the Council held on Thursday March 27th, Mr. G. S. Pitt, President, in the chair, the Council had before them the report of the Disciplinary Committee that Herbert Thistleton Wright (Associate) had been convicted at the Central Criminal Court on January 8th, 1924, for fraudulently converting to his own use and benefit a cheque for the sum of £339 16s. It was resolved that the said Herbert Thistleton Wright be excluded from the Membership of the Society in accordance with the provisions of the Society's Articles.

### MEETING OF DISCIPLINARY COMMITTEE.

A meeting of the Disciplinary Committee of the Council was held on March 11th, when there were present Mr. F. Walmsley, J.P. (Chairman), Sir James Martin, J.P., Mr. C. Hewetson Nelson, J.P., Sir Charles H. Wilson, LL.D., M.P., J.P., Mr. A. E. Woodington, and Mr. A. A. Garrett, B.Sc. (Sec.).

The Committee took into consideration a complaint against an Associate in practice that in two cases he had given certificates of profits for insertion in the prospectuses of public companies inviting subscriptions for capital, such certificates being based upon estimates of future earnings.

The Committee decided that the Associate in practice had been guilty of conduct discreditable to a member, and he was suspended from the exercise of all rights and privileges of a member for a period of twelve months.

The Committee had before them the certified conviction at the Central Criminal Court of an Associate in practice for the fraudulent conversion of money received on behalf of a client. The Committee ordered a report to be made to the Council under the provisions of the Society's articles that in their opinion this Associate member ought to be excluded from the Society.

## ACCOUNTANTS' CLAIM FOR PROFESSIONAL SERVICES.

In the Mayor's and City of London Court, on February 28th, before Judge Shewell Cooper, Messrs. Rowley, Pemberton and Lord, Chartered Accountants, 34 and 36, Gresham Street, London, E.C., sued Mrs. Rose Biggs, publisher, 27, Chancery Lane, London, for 12 guineas for professional services in 1921. Mr. R. J. Willis was counsel for the plaintiffs and Mr. G. J. Salmon for the defendant. For the plaintiffs it was stated that the claim was for professional services done as the result of instructions given in March, 1921, by the son of the defendant. A letter was received from the son of the defendant requesting the firm to examine the books of the company with a view to ascertaining the position with a view to the sale of a newspaper, the *Contractors' Record*. At the time the letter was written the paper was owned by a brother of the defendant, but his name had not appeared in connection with the matter until proceedings were taken. Plaintiffs contended that Mrs. Rose Biggs was the principally interested party and that it was on her behalf that the services were rendered. Shortly after the services were commenced plaintiffs were instrumental in causing negotiations with a potential purchaser to be commenced, but nothing came of it. The sum claimed was for services rendered before the suggestion of negotiations was made. Mr. Rowley, of the plaintiff firm, said that he had a number of interviews at his office with the defendant, or members of her family, who were connected with the business, and he gathered from the examination which he made of the books that she was the person principally interested in any sale which occurred. For the defence it was urged that Mrs. Biggs was merely the manager of the paper which was in fact owned by Mr. Mitchell, her brother.

Judge Shewell Cooper said the amount of the plaintiffs' claim was quite reasonable in view of the services which were performed. It was clear that at the time of the instructions the business was owned by a certain Mr. Mitchell, who was the sole proprietor, so far as the Business Names Act was concerned. It was for the plaintiffs to show that the person sued had given the orders for the work to be done, or that she was a partner, or held herself out or suffered herself to be held out as a partner. There was no evidence whatever that she gave the orders. The original letter was written by Mr. Biggs with a p.p. signature, and the only occasion on which Mrs. Biggs appeared upon the scene was in one interview at the plaintiffs' office when the matter was discussed in her presence. He (the Judge) did not think she took any part in those discussions. As to whether she was a partner, plaintiffs' counsel had very properly pointed out that he did not put that forward. The claim seemed to be based solely upon the fact that Mrs. Biggs had a financial interest in the sale of the business by reason of her holding some shares in a company which had sold the paper to Mr. Mitchell. The claim must fail, because he was satisfied that there was no legal liability on the part of Mrs. Biggs for the payment for the services rendered. Plaintiffs would have to pursue their remedy against any other person as they might be advised.

## BANKRUPTCY BILL.

In the House of Commons on Tuesday, March 18th, Mr. Arthur Michael Samuel, M.P., introduced a Bill to amend the law relating to bankruptcy.

This Bill is founded upon the Report of the Bankruptcy Committee of the Association of British Chambers of Commerce, of which Sir James Martin was chairman.

The Committee brought their report before the President of the Board of Trade (The Right Hon. Sydney Webb, M.P.), at Committee Room No. 6 of the House of Commons on Monday, March 3rd. The President of the Board of Trade was accompanied by Mr. H. F. Carlill, Inspector-General in Bankruptcy.

The members of the deputation were Sir Arthur Shirley Benn, K.B.E., M.P.; Lord Southwark; Sir James Martin, J.P., F.S.A.A.; Lieut.-Colonel Sir J. Nall, D.S.O., M.P.; Mr. J. Horace Lockwood (Bradford), Mr. J. H. Fisher (Hull), Mr. Arthur Michael Samuel, M.P. (Norwich), Mr. Thomas Keens, M.P., F.S.A.A. (Luton), Mr. J. A. Aiton, C.B.E. (Derby), Sir Henry Whitehead, J.P. (Bradford), Mr. Charles Hawkins, Mr. J. Ainscow, Mr. John Paynter, Mr. S. H. Gillett, F.C.A., Mr. G. H. Wood, Mr. B. G. Arthur, Mr. C. Urquhart Fisher, Mr. S. Neve, Mr. Quaife, Mr. F. Thorne, J.P., Mr. P. Howling, Mr. S. Lineham, Mr. James Bradnum and Mr. R. B. Dunwoody, O.B.E. (Secretary).

Sir Arthur Shirley Benn, M.P., introduced the deputation and called upon Sir James Martin and Sir Henry Whitehead to put the case of the Committee before the President.

Sir James Martin: I feel that I have got a somewhat melancholy distinction in addressing you, because I believe that I am probably the only person in this room who had experience of the administration of the Bankruptcy Act of 1869. In the year 1882, as a very young man—just 21 years of age—I received my first professional appointment from the Judge in Bankruptcy, and I well remember all that led up to the passing of the Bankruptcy Act of 1883 by the late Mr. Joseph Chamberlain. Then that was succeeded by the Bankruptcy Act of 1890, which, I believe, speaking from memory, was promoted by a Private Bill at the instance of the Chambers of Commerce; it was piloted through by the late Sir Albert Rollit when Sir Michael Hicks-Beach was President of the Board of Trade. I know very well that I was in the Grant Committee Room during a considerable part of the time when that Bill was under discussion. The Act of 1890 was succeeded by the Act of 1913, and in the year 1914 the Bankruptcy Act was consolidated, and that is the Act which we have now before us. Well, Sir, the Act of 1913 contained some amendments which went a little distance towards meeting the views of the Chambers of Commerce, but in our opinion it did not go far enough, so, as a consequence, our committee was appointed, and we have gone very carefully into the questions that we are bringing before you. At our meetings we had the advantage, and I would like to acknowledge it very cordially, of the attendance of Mr. Carlill, the Inspector-General in Bankruptcy, so he had the opportunity of learning somewhat in advance what our views are.

You will see, if you have our recommendations in front of you, that the principal decision we came to was:

> ". . . . that the losses sustained by the trading community in connection with bankruptcy and other insolvency are swollen by fraudulent, hazardous and speculative trading, and we are of opinion that the Bankruptcy Acts require further amendment."

I am not going to give you in detail instances of the acts of which we complain, because my friend, Sir Henry Whitehead, who is to follow me, has greater practical knowledge at first hand than I have—I should have to collect the information; but I do want to call your attention to the report of a case which was tried on February 6th last before one of our City of London Judges, a gentleman with a very honoured name, in whom we have the greatest confidence. I refer to the Common Sergeant, Sir Henry F. Dickens, who was trying two men who had defrauded the textile trade out of a very large sum of money. The Common Sergeant said:

> "This has been a system of fraud—a kind of case which I am sick of trying. I get them so often. This kind of

> fraud goes to the root of all credit in this country. A trader cannot live without credit, and as soon as these frauds become rife our people are not able to get credit at all. It goes to the root of all commercial morality."

I think this is very forcible coming from a judge of Sir Henry Dickens' experience, who complains that the time of the Central Criminal Court is very largely taken up with this class of fraud.

Now, having regard to the decision to which we came, we want to ask you, first of all, to amend sect. 154 of the Bankruptcy Act of 1914, in respect of sub-sects. 4, 5, 9, 10, 11, 12, 13, 14 and 15. In each of these sub-sections a debtor would be guilty of a misdemeanour if he committed a certain offence within six months of the date of his bankruptcy. Now, our amendment is this: that we want in every case that six months altered to twelve months. That is the sole amendment to every one of those sub-sections, and why we ask for that is this. If you will look carefully at these sub-sections you will find that in every case it relates to a case of absolute fraud or false pretences or fraudulent representations, and we see no valid reason to give men who are obviously rascals immunity, because their frauds were not committed longer than six months in advance of the bankruptcy. We think we are asking for a very small thing when we request that six months should be extended to twelve months.

Now, following that, we say at the bottom of page 3: "The following should be added as misdemeanours under this section," and we propose the inclusion of five further offences. I know your time is valuable. Would you like me to read them?

The PRESIDENT: No, thank you. I have your report.

Sir JAMES MARTIN: We think if those five further offences were added to those which I have already quoted to you that it would make that section very much more complete, and would give further protection to trade.

Now, I come to a very important clause in our report, and that is No. 3, on page 4. It is very short, and I will read it:

> "An alien resident in this country for less than ten years who commits a misdemeanour or a felony under this Act or who is guilty of such conduct whereby the Court is stopped from granting to him an unconditional discharge, should, on conviction, or proof thereof, be liable at the discretion of the Court to be deported."

Now, Mr. Webb, I am a Londoner by birth, by citizenship, by education and occupation, and I know too much about the trade of London to raise any objection to foreigners trading here. I, for my part, welcome all the foreigners who like to come and trade here honestly beside our own people, but at the same time if foreigners come here they must not burgle our houses, or, as the Americans would put it, indulge in "clean steals." If they do, we say we do not desire their company. To show you how some foreigners have illegally traded here, I asked a member of my staff to get out a list of foreigners who had either been made bankrupts or who had given deeds of arrangement during the years 1922 and 1923; he came back to me and said the job was too big for him, and could he get the assistance of one of the trade protection societies. I assented, and between them they have got me out in the two years of 1922 and 1923 the names of 470 persons who would appear to be foreigners, whose names have appeared in the *London Gazette* either as bankrupts or as having given deeds of arrangement. Now, I would not like to swear that every name in this list is the name of a foreigner; probably there may be some Englishmen there with foreign names, but a great number of these names I cannot even pronounce, and in order that I shall not make a mere statement, I should like to hand *this* list to you so that it can be investigated by your department. I think, Sir, you will admit that 470 foreigners is too large a number to be gazetted in two years.

The PRESIDENT: Even allowing for the fact that some of those gentlemen with what you call foreign names may have been here for several generations.

Mr. CHARLES HAWKINS: And they may have failed three or four times during that period.

The PRESIDENT: Quite so.

Sir JAMES MARTIN: I hand the list in, and I am sure the Inspector-General will know how far my case is a good one. Then I am coming to another part of our report which we consider to be very important. Sect. 158 of the Bankruptcy Act puts a penalty on a man who has been adjudged a bankrupt twice who has not kept proper books of account. We say: "Why a second failure? Why should not people keep proper books of account?" This is a subject which I have ventured to call attention to on previous occasions; in fact, I gave evidence in regard to it before the Royal Commission on Income Tax. I said to the Royal Commission that I thought every person who carried on trade or business in this country should keep proper books of account. The Royal Commission on Income Tax turned me down, and if I might—it will not take me long, it is a bit against me—I would like to put before you what the Royal Commission said:—

> "It has been suggested to us by many witnesses—and not by accountants only—that all traders should be obliged to keep accounts. However desirable this may be in theory, we feel that it is a matter that does not lie wholly within the area of our subject, and we believe that to attempt, under cover of an income tax provision, to attain this end might be open to misconstruction and would throw unnecessary odium upon the Inland Revenue Department. It must be borne in mind that the Revenue is not wholly without remedy in the case of a trader who keeps no accounts, and that by improved administration and methods of assessment further information on which to base estimated assessments may be obtained. In any case, we think it would be quite impossible for the law to enforce as an income tax measure a provision that made it compulsory on every trader in the country to keep accounts. There are traders who are quite incapable of keeping proper books, even if they have the desire to do so, and many of the small traders are exempt from income tax."

But I would like to point out to you in answer to that, that the truth probably is that the Inland Revenue do not want to incur the odium of calling upon people to keep proper books of account, although I do not know why they should be afraid, and any man who has occupied the position of a Commissioner of Income Tax cannot understand it; but I must leave the Inland Revenue to come to our own proposal. We propose that:

> "For the purposes of this section, a person shall be deemed not to have kept proper books of account if he has not kept such books or accounts as are necessary to exhibit or explain his transactions and financial position in his trade. . . ."

And then we go on to say what are the books we want him to keep. I have received a good deal of genial chaff from friends of mine that I am simply out to get people to indulge in more accountancy for selfish purposes. I do not desire anything of the sort. The class of book-keeping I want is that book-keeping which any man who has been through the fifth standard of one of our elementary schools is able to carry out, and all I can say is this, that if a person who has been decently educated in one of the elementary schools cannot keep a cash account, an account of his expenses, an account of the goods he received and an account of the goods he sends out, there must be something very wrong with our system of education.

Now, passing away from that, I want to come to sect. 161 of the Bankruptcy Act of 1914, where the Court may not order a prosecution in the absence of an application by the official receiver. We want that amendment so that the application may be made to the Court either by the official receiver or the trustee in the bankruptcy, because after all the Court has got to decide whether the prosecution shall be instituted, and if a trustee is certified by the Board of Trade he is the responsible man, the Board of Trade give him his certificate, and why should he not make the report to the Court as well as the official receiver? Therefore, we ask you to make that small amendment in the law.

The final recommendation is that:

> "The official receiver and/or the trustee should in all cases under the Bankruptcy Acts make and file in the proceedings a special report stating whether or not the bankrupt has in his opinion committed any offence under

the Act, whether by way of felony or misdemeanour or of any conduct constituting a ground for attaching conditions to his discharge."

There is no reason in my opinion—I have been a trustee myself, though I do not practice much in bankruptcy nowadays—I can see no earthly reason why a trustee should shirk the responsibility of making a report in regard to a debtor whose affairs he controls.

Well, Sir, those are our proposals. I venture to submit them to you as modest and practical. The adoption of our suggestions will in our opinion improve the Act of Parliament and afford better protection to industry and commerce. One of your predecessors as President of the Board of Trade (Mr. Churchill) received some years ago a similar deputation from this Association, but his reply was anything but encouraging. Creditors, he said to us, were not benefactors to the community, but the victims of their own misplaced confidence. In my opinion, Mr. Churchill did not grasp the truth of the situation. Traders who defraud their creditors are bad citizens and are injuring the State. It is not only the actual creditor who suffers, but the State also, which, besides any direct loss in Imperial or local taxation, has also to bear an indirect loss in the depreciation of the creditors' profits. I hope and trust you will give the representations that we have placed before you your earnest and careful consideration as coming from a body of practical business men, and will see your way to introduce a Bill further to amend the Bankruptcy Act.

Sir Henry Whitehead, who followed, said that he was an ex-President of the Bradford Chamber of Commerce, President of the Textile Federation for the Prevention of Fraudulent Trading, and also President of the Spinners' Federation. The necessity for reform had been brought to his notice from numerous quarters, including the Bradford Chamber of Commerce, and the ten West Riding Chambers had formed a joint committee on the matter. He believed that the textile trade had been more hardly hit than any other branch of trade in the country, although all trades had suffered severe losses through the fraudulent practices of which they complained and against which they hoped to have the bankruptcy laws amended so as to afford them better protection.

The President of the Board of Trade asked many questions of the deputation and made some criticisms of the various proposals put before him. He pointed out that the present bankruptcy law as codified had only been in operation since April 1st, 1914, and it was somewhat difficult to bring about another reform at so early a date. He promised carefully to consider all the points put before him by the deputation, but he could not pledge himself that the Government would undertake to introduce a Bill during the current session.

Mr. A. M. Samuel, M.P., moved a vote of thanks to Mr. Sydney Webb for his courtesy to the deputation, and said that it would be a good thing to have a Departmental Committee of the Board of Trade to consider the proposals of the Committee, which could be placed in the form of a Bill.

Mr. Thomas Keens, M.P., in seconding the vote of thanks, said he was a witness before the last Departmental Committee and was able to put forward a great many views adopted by the Committee, and he thought he had attended every deputation to the Ministry on this question in the last 25 or 30 years, in addition to which, having been engaged in bankruptcy practice all that time, he had a great many cases within his own knowledge, and had therefore been able to follow the discussion very closely that afternoon. Mr. Webb's reception of the deputation had shown that he appreciated that there were traders who had taken the utmost care in granting credits and still got landed, and after all credit was essential to business.

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## Bill to Amend the Law relating to Bankruptcy.

*(Presented by Mr. Arthur Michael Samuel, supported by Mr. T. Keens and Mr. W. M. R. Pringle.*

Be it enacted by the King's Most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

Amendment of Sect. 154 of Bankruptcy Act, 1914, 4 & 5 Geo. V, c. 59.

1.—(1) The words "twelve months" shall be substituted for the words "six months" in sub-sects. (4), (5), (9), (10), (11), (12), (13), (14), (15), of sect. 154 of the Bankruptcy Act, 1914.

(2) The following sub-sections shall be inserted in sect. 154 of the Bankruptcy Act, 1914, after sub-sect. (16):—

(*a*) If, within twelve months next before the presentation of a bankruptcy petition, he has contracted any debt provable in the bankruptcy without having at the time of contracting it any reasonable or probable ground or expectation (proof whereof shall lie on him) of being able to pay it;

(*b*) If, within twelve months next before the presentation of a bankruptcy petition, he has incurred liabilities with a view to increasing his assets in the bankruptcy;

(*c*) If, knowing his insolvency, he shall have permitted or suffered the whole or substantially the whole of his assets to be seized by, or applied for the benefit of, a particular creditor or creditors to the detriment of the general body of his creditors;

(*d*) If, within twelve months next before the presentation of a bankruptcy petition, he, knowing his insolvency, shall have purchased goods and sold the same goods at less than cost or current market price unless he shall satisfy the Court that such conduct was not fraudulent;

(*e*) If, within two years next before the presentation of a bankruptcy petition, any payment shall have been made by a bankrupt to any person whether it be his wife, a relative, or otherwise, not in connection with a business transaction nor for valuable consideration, and at a time when the bankrupt knew he was insolvent or would become insolvent as a result of such payment.

Amendment of Sect. 158 of Bankruptcy Act, 1914.

2.—(1) Sect. 158 of the Bankruptcy Act, 1914, shall have effect as if the words "on any previous occasion" in sub-sect. (1) of that section had been omitted therefrom.

(2) The following sub-section shall be substituted for sub-sect. (3) of sect. 158 of the Bankruptcy Act, 1914:—

"(3) For the purposes of this section, a person shall be deemed not to have kept proper books of account if he has not kept such books or accounts as are necessary to exhibit or explain his transactions and financial position in his trade, business or profession, including a book or books containing entries from day to day in sufficient detail of all cash received and cash paid, and, where the trade or business has involved dealings in goods, also accounts of all goods sold, including a description in sufficient detail of all goods sold and purchased whether for cash or credit, as will enable such goods to be identifiable and also particulars of the name and address of the supplier or purchaser of such goods, and statements of annual stocktakings showing the basis upon which such stocktakings are made: Provided that a person engaged in any retail trade in which it would be a hardship or against the usual custom of the trade to enter such details as are hereinbefore required, then and in such cases, the omission shall be deemed to be excusable."

Amendment of Sect. 161 of Bankruptcy Act, 1914.

3.—Sect. 161 of the Bankruptcy Act, 1914, shall have effect as if the proviso to that section had been omitted therefrom.

Amendment of Sect. 72 of Bankruptcy Act, 1914.

4.—The following sub-section shall be added to sect. 72 of the Bankruptcy Act, 1914:—

"(5) The official receiver and/or the trustee shall in all cases of bankruptcy make and file a special report stating whether or not the bankrupt has, in his opinion, committed any offence under the Bankruptcy Acts, whether by way of felony or misdemeanour, or of any conduct constituting a ground for attaching conditions to his discharge."

Deportation of Aliens in Certain Cases.

5.—In the event of an alien who has been resident in England for less than ten years being convicted of a misdemeanour or a felony under the Bankruptcy Act, 1914, or under any amending Act, or who is guilty of such conduct whereby the Court is stopped from granting to him an unconditional order of discharge, the Court may, in addition to any other punishment to which he may be liable, make a recommendation for his deportation.

Short Title, Extent, and Commencement.

6.—(1) This Act may be cited as the Bankruptcy (Amendment) Act, 1924.

(2) This Act shall not apply to Scotland or Ireland.

(3) This Act shall come into operation on January 1st, 1925.

# District Societies of Incorporated Accountants.

## NEWCASTLE-UPON-TYNE.

"Examination Hints in Costing Statistics and Economics" was the subject of an address given by Mr. E. Miles Taylor, F.C.A. (London), to the members of this Society at Armstrong College on March 7th.

Mr. Arthur White, A.S.A.A., presided, and in introducing the Lecturer advised the audience against giving too little time to study.

Mr. Taylor, who gave a number of illustrations to explain intricate points, also urged the necessity of allowing time for reading and reflection, which would enhance their chances of success.

## SHEFFIELD.

Students' Section.

*Revision Classes for May, 1924, Examination.*

**Syllabus of Lectures.**

| 1924. | |
|---|---|
| Mar. 7th. | "Mercantile Law," by Mr. G. H. Okell, Solicitor. |
| Mar. 14th. | "Income Tax," by Mr. C. H. Wells, A.S.A.A. |
| Mar. 21st. | "Executorship Law," by Mr. D. P. Mosby, Solicitor. |
| Mar. 28th. | "Statistics," by Mr. L. Lewis, A.S.A.A. |
| April 4th. | "Company Law," by Mr. J. W. Richardson, A.S.A.A. |
| April 11th. | "Accountancy," by Mr. C. E. Brayshaw, A.C.A. |
| April 25th. | "Revision, Past Examination Papers, &c.," by Students. |

These classes are arranged for the benefit of student members, and commence at seven p.m. each Friday evening in the Law Society's Rooms, Bank Street.

## YORKSHIRE.

The eleventh meeting of the session (jointly with the Bradford District Society) was held at Leeds on March 11th, and took the form of two mock "Income Tax Appeals."

Fifty members attended the meeting, and an interesting discussion took place at the close of each of the two cases dealt with.

In the unavoidable absence of Mr. W. Claridge, Mr. T. W. Dresser acted as Chairman of the Commissioners. Mr. H. Reynolds, F.S.A.A., was clerk to the Commissioners, the Commissioners being Mr. W. Gaunt, F.S.A.A., Mr. C. H. Goldthorpe, A.S.A.A., and Mr. F. McCormack (Leeds). The following members also took part in the proceedings:—Mr. F. Dean (Bradford), Mr. H. Bray, A.S.A.A. (Leeds), Mr. J. Simpson, Mr. L. B. Smith, A.S.A.A. (Bradford), Mr. G. Malthouse, A.S.A.A. (Leeds), and Mr. A. Hartley, A.S.A.A.

# ACCOUNTING FOR ARMY EXPENDITURE.

## Report of Committee.

The Committee appointed to inquire into the administration of, and accounting for, Army Expenditure have issued their report. The Committee were: General the Hon. Sir Herbert A. Lawrence, K.C.B. (Chairman); Sir Gilbert Garnsey, K.B.E., F.C.A. (Vice-Chairman); Major-General B. Burnett-Hitchcock, C.B., D.S.O.; Sir Charles Harris, G.B.E., K.C.B.; Brevet-Colonel (temp. Colonel) W. P. H. Hill, C.M.G., D.S.O.; Mr. M. Webster Jenkinson, C.B.E., F.C.A.; Colonel (temp. Colonel on the Staff) A. A. McHardy, C.B., C.M.G., D.S.O.; Mr. O. E. Niemeyer, C.B.; Major-General F. F. Ready, C.B., C.S.I., C.M.G., D.S.O.; and Major A. B. Cliff (Secretary).

Terms of reference were: To inquire into the system of administration of, and accounting for, Army expenditure, and into the use of accounts for the purpose of control, and to report what changes, if any, consistent with the requirements of Parliamentary accounting, are desirable in the interests of economy and efficiency.

## Report.

1.—On August 1st, 1922, a preliminary meeting was held which was attended by the then Secretary of State for War (Right Hon. Sir Laming Worthington Evans). The Committee then adjourned until October, in order that members might have an opportunity to study a number of documents bearing on the inquiry which were circulated in the interval. Included in these documents was a preliminary report made in April, 1922, by Mr. M. Webster Jenkinson, who, at the request of the Secretary of State for War, had investigated the system of Army accounting.

★2.—A sub-committee, consisting of Sir Gilbert Garnsey, Sir Charles Harris and Mr. M. Webster Jenkinson, was appointed to consider the present technical processes of accounting in the Army; whether any, and if so what, simplification is possible, and what saving of staff could be thereby effected. The report presented by this sub-committee is referred to in paragraph 43 below.

3.—On receipt of this report the main Committee reassembled, and has since held a number of meetings, at which evidence has been heard on several points raised in the report of the sub-committee and other points bearing on the terms of reference.

4.—Many of the points arising out of the terms of reference have already been dealt with in the interim report of the Committee presided over by Major-General Sir F. S. Robb. The old and the present systems of Army accounting, and the fundamental principles which underlie the newer system, are accurately described therein and do not require repetition. In the course of our report we shall from time to time refer to the report of Sir F. Robb's Committee, and where we endorse the recommendations therein we have not thought it necessary to reiterate the arguments in support of those recommendations which have already been put forward so ably in the former report.

5.—We fully endorse the opinion of Sir F. Robb's Committee (report, paragraph 32) that the new system "has potentialities in it which are altogether lacking in the old system." We go farther and say that it is proved to demonstration that, by a proper system of accounting, economies to an extent at present quite unrealised can be effected. Until the Army as a whole appreciates the use which may be made of the information afforded by a proper system of accounting it is impossible to obtain the best and most economical administrative results. It would be idle to pretend that the new system has been received with favour by the Army as a whole, and this fact we attribute to various causes, amongst which may be mentioned:—

(1) The use of the title "cost accounting," which is misleading (see Robb's Committee report, paragraphs 13-14) and gives rise to the belief that the additional expenditure on producing the new accounts is incurred merely to produce "cost accounts" as the term is understood in the commercial world. The fact is that prior to the introduction of the new system there was nothing in the Army outside the War Office worthy to be called by the name of "accounts," and while in the outside

world more and more use was being made of accounts for the purpose of administration—not only by commercial concerns but also by public bodies—the Army had adhered to methods which had long since been obsolete.

(2) The fact that the introduction of the accounts has not been accompanied by increased administrative responsibility. An officer cannot be expected to take much interest in an account of expenditure which he has no power to control.

(3) The apparent absurdity of the results produced by the accountants in certain cases. This, while regretable, has been to some extent unavoidable in the creation of an entirely new system, where fresh accounting problems, for the settlement of which no precedent existed, were constantly arising. Moreover, those to whom the accounts were presented were in many cases unable to draw the right conclusions from them.

(4) The feeling, unfortunately existing in some quarters, which is expressed in a statement reported to us:—"We hate these accounts and are being spied upon." The new system has from the first been subjected to the suggestion that the accounts are not worth what they cost, and the natural reply is to point to savings which have already been effected as the result of the accounts. The present feeling cannot be removed until it is accepted as a fact—and we are convinced that it is a fact—that a proper accounting system is as necessary to the efficient administration of the Army as a proper medical service is to its health, and that there can never be any question of reverting to the old unscientific forms of account which existed before the new system was introduced.

6.—Nearly twenty years ago the Esher Committee severely criticised the "excessively complex and minute regulations" by which the War Office was "supposed to control expenditure," and pointed out that rigid adherence to these doubtless effected small savings, but did not and could not secure real economy. They also referred to the "interminable paper correspondence which wears out the energies of officials and unfits them for the discharge of their proper duties." The position in this respect is much the same to-day as it was when these criticisms were written. We believe that the new system of accounts, when properly developed and carried to its ultimate conclusion on the lines which we propose in this report, will not only enable masses of complicated regulations to be swept away but, by killing for ever the present system of referring to higher authority, and even to the War Office, individual cases of trivial importance, will effect a vast saving in correspondence and in the staff required to deal with it.

7.—We now propose to deal with the subject of our inquiry under the following heads:—

★I.—Administration.

II.—Accounting—

(*a*) For purposes of control.

(*b*) For Parliamentary purposes.

## Accounting.

(A) *Accounting for Purposes of Administrative Control.*

39.—As we have endeavoured to show in the first part of our report, it is our opinion that a condition essential to any scheme of decentralisation of administrative responsibility is the existence of a proper accounting system. It would appear that the accounts prepared under the present dual system are not in all cases either so prompt or so accurate as would be necessary were they the sole—or main—instrument of administration. Moreover, it has been suggested that, even if accounts for regimental units are prepared at all, they need not include the full cost of the unit, such items as the commanding officer cannot control being omitted. In our view, however, the mutual transactions between regimental units (Head I of the Army Estimates) and working and productive activities (Head III of the Army Estimates) are such that it is impossible to keep complete and accurate accounts for the latter unless there are complete and accurate accounts for the former. Such accounts should, of course, distinguish between items which are under the control of the unit and items which are fixed. The abandonment of individual accounts for regimental units would render it impossible to extend to commanding officers of such units the increased administrative responsibility which we have suggested in the first part of this report. "Services rendered" to and by working and productive establishments would have to be assessed by the latter, who in the absence of any check by the creditor or debtor unit would always tend to understate their liabilities or claim a greater credit than that to which they were entitled. If incomplete accounts for each regimental unit were prepared, omitting, say, such an item as "pay," to cite only one disadvantage, either the charges out for military labour would be on a wrong basis or the unit would receive a greater credit than it was entitled to on the incomplete account. Several witnesses pointed out to us the use which could be made of investigating accountants to inquire into any particular class or item of expenditure as occasion arose, but the availability of investigating accountants without a complete accounting system at each unit would be useless, as the data necessary for the investigation would not be available.

A proper accounting system must include the accurate preparation and prompt rendition of an account showing the full cost of every unit and establishment.

40.—From the outset we realised that at present there are two systems—the Royal Army Pay Corps keeping the cash accounts almost in the same elaborate form as before, and the Corps of Military Accountants producing the accounts in the new form. We quite understand the necessity for this so long as there was any doubt about the fact that the new system had come to stay. Moreover, there is a great distinction between the duties of the R.A.P.C. and the C.M.A. in that the former are concerned almost wholly with entitlement and very little with accounting, whereas the latter are concerned wholly with accounting and not at all with entitlement.

41.—Nevertheless, it appeared that there must be a certain amount of overlapping between the duties of the two corps, and that increased efficiency and economy could be obtained by welding the two systems into one homogeneous whole. We therefore appointed the sub-committee referred to in paragraph 2 above to consider the present technical processes of accounting in the Army; whether any, and if so what, simplification is possible, and what saving of staff could be thereby effected. The sub-committee was assisted by Mr. A. Cathles, O.B.E., Chartered Accountant, who made a detailed investigation of the accounts of a number of units and establishments.

42.—The sub-committee were unanimously of opinion that the new form of accounts, taken as a whole, should be maintained, but Sir Charles Harris was, unfortunately, unable to agree with the other members as to the larger features of the organisation of the accounting work and personnel best adapted to the production of the accounts under Army conditions.

43.—The professional members of the sub-committee recommend in their report a scheme under which the Royal Army Pay Corps and Corps of Military Accountants should be amalgamated and the organisation of the future corps should conform to the existing plan of the C.M.A., not only for the accounting work but also for the "entitlement" work (*i.e.*, the detailed application of the Pay Warrant and Allowance Regulations) referred to in paragraph 40 above as forming the principal duty of the R.A.P.C. The scheme provides for the break up, in peace, of the existing fixed centre pay offices dealing each with the pay accounts of a group of regiments, the transfer of their duties to the unit accountants appointed to prepare the accounts at each regimental unit (including depôts) and establishment, and the gradual reconstitution, on the outbreak of war, of fixed centre pay offices not by groups but at the depôt of each regiment. There would also be centralised under the unit accountant at each unit and establishment all the accounting functions now performed by or for the unit by other personnel.

44.—Sir Charles Harris expresses his opinion as follows:—"While myself proposing to amalgamate the two accountant corps, I am led by my long experience in war and peace to dissent from that part of the scheme which transfers the

★ *That part of the report relating to Administration, and also the report of the sub-committee are not given by us.*—Eds., *I.A.J.*

entitlement and pay account work to the unit accountants at each unit and establishment, my main grounds being the dislocation which would ensue on the outbreak of war, when the strain on the machinery of pay duties must in any case be dangerously severe; the loss of the present centralised expert control over the entitlement work in peace and the increase in the number of fixed pay centres (one for every depôt) to be organised on a war basis and controlled in war, and the fact that the cost of the considerable increase in the total number of accountant officers which the change would admittedly involve is underestimated and would not, in my judgment, be balanced by a reduction in the cost of subordinates. I am also of opinion that the consequences of the proposed 'centralisation' of all accounting duties under the unit accountant, which might be of great importance both financially and otherwise, require further consideration, and I see no difficulty in securing a prompt and proper account at each unit and establishment, adequate for all administrative purposes, without breaking up the fixed centre pay offices."

45.—In view of our agreement with the general opinion that decentralisation of administrative responsibility is desirable and of the conclusion at which we have arrived (see paragraph 18), that decentralisation should be carried to the regimental unit, and further that as the account must be prepared where the control of expenditure exists, we agree with the sub-committee that the new system of accounts showing the expenditure upon each unit should be continued.

46.—We also agree with the recommendation to amalgamate the Royal Army Pay Corps and the Corps of Military Accountants, this amalgamation carrying with it the decentralisation, from the present command pay offices to station accountants, of the examination and allowance for payment of contractors' bills and other "commercial" claims.

47.—We have had considerable difficulty in arriving at a conclusion on the proposal in the report to decentralise to units as much as possible of the work now done by the Royal Army Pay Corps, and to centralise within each unit under an accountant of the new corps all the accounting functions now performed by or for the unit.

48.—We have given due attention to the views expressed by Sir Charles Harris and recognise the importance of the questions raised. As regards the position on mobilisation, difficulties must then arise under any system, and we are not convinced that the proposed system would be any less efficient than that in operation in 1914. For the reasons given in paragraph 49 we are of opinion that the balance of advantage lies with the unit accountant plan of organisation. With the question of cost we deal in paragraph 50.

49.—The proposal to decentralise accounting from pay offices to units, and to centralise, under a unit accountant, all accounting within units, should ensure a proper account of the total cost of each unit and establishment, which is essential to the system of administration recommended in the first part of our report. If such an account is to be compiled, it must be done by a unit accountant on the spot. At present, the unit accountant suffers under many disadvantages—(1) in most cases the "cost" account of the unit is not sufficient to occupy his whole time; consequently his time is divided between several units, and since all the accounts are due to be closed at the same time, some of them must suffer as regards promptitude; (2) he is dependent for information regarding the greater part of the expenditure (cash) on two pay offices (command and regimental), both of which may be hundreds of miles away; (3) he is dependent for his information regarding consumption of stores and supplies on vouchers in the possession of the unit, but not under his custody or control, and (4) he is dependent for other information, *e.g.*, regarding "services rendered" on records kept by the unit, and unless he is with the unit the whole time he is in a difficult position as regards knowing whether such records are accurate. The fact that the accountant with the unit would be concerned not only with the "cost" account, which may in some cases at first be looked upon as superfluous, but also with pay and allowances, which everybody will be agreed are necessary, should induce a very different attitude of mind from that which at present prevails. The Commanding Officer will come to look on the unit accountant as his adviser in all matters of pay, accounting and finance, and the account, more promptly and accurately prepared than is possible under the present procedure, will take its proper place as a vital part of the system of administration, instead of being regarded, as it is in many cases at present, as something quite external and prepared merely for the purpose of the Parliamentary account. We therefore recommend decentralisation of pay duties to units and the appointment of regimental accountant officers (or warrant or non-commissioned officers) to units, station accountant officers to groups of small units permanently at a station, and depôt accountant officers at regimental depôts.

50.—In paragraph 43 of the report of the sub-committee it is estimated that the following annual savings by reduction of staff would result from the adoption of the changes recommended:—

| | |
|---|---|
| War Office .. .. .. .. .. .. | £2,430 |
| Royal Army Pay Corps and Corps of Military Accountants .. .. .. .. .. | 43,100 |
| Record Offices .. .. .. .. .. .. | 195,440 |
| Total .. .. | £240,970 |

Of this total £195,440 per annum arises in connection with Record Offices (see paragraph 60 below) and is in the main independent of the question of organisation of accounting duties. As regards the remaining £45,530 per annum, Sir Charles Harris, for the reasons indicated in paragraph 44 above, is altogether unable to accept the figures and holds that there would be a substantial net increase in the expenditure on accounting as compared with his own proposal to amalgamate the two Accountant Corps, but maintain the present organisation of pay duties. There is here a difference of opinion upon which we are not in a position to record a final judgment. But we are of opinion that even if some increase in cost were to ensue upon the adoption of this plan it would in all probability be more than recovered by the economies which would arise from a proper system of accounting.

51.—We have referred in paragraph 5 to some of the causes which have made the new system of accounting and its partial application unpopular in the Army. We are convinced that no system, however sound it may be, will have a chance of ultimate survival so long as it is regarded with suspicion by those who are expected to carry it out, and we are of opinion that there is much force in the view that if there is no real control no active interest can be expected from the officers who are the administrators. The fact that the Corps of Military Accountants is entirely controlled by the Finance Department of the War Office has undoubtedly tended to increase the hostility which exists in some quarters to the new system of accounts.

For these reasons we are of the definite opinion that the proper and logical way to obtain the full benefit of the new system would be that the head of the new corps which we propose should be formed by the amalgamation of the Royal Army Pay Corps and the Corps of Military Accountants should be immediately responsible for the work and personnel of the corps to the Adjutant-General to the Forces, subject to such instructions as the accounting officer of the War Office may deem it advisable to give, through the Adjutant-General, to fulfil the duties of his office.

Our attention has been drawn to the conclusions formulated by the Public Accounts Committee as to the relations between the accounting officer of the War Office and his sub-accounting officers.* In view of these it may be necessary that the

* "Your Committee therefore deem it their duty to affirm the necessity for maintaining unimpaired the established system of accounting to Parliament for the application of public moneys to the purposes for which they are intended by Parliament to provide, and to declare that neither can the existing system of Parliamentary control be altered, nor the strict responsibility attached by it to the accounting officers appointed to carry it out be removed, otherwise than by Parliament itself.

"In order to remove all doubt and misunderstanding, your Committee recommend that it be distinctly laid down: (1) That in the case of the Army, as of all other departments, the duty of accounting for moneys received, expended or in hand, and the responsibility for them, lies upon the chief accounting officer of the department; (2) that the authority over and the responsibility for all sub-accounting officers belong to him; (3) that no part of that authority or responsibility can be diverted from him to any other person whatever; and (4) that in all matters of account and of payment or receipt, whether matters in dispute or not, the sub-accounting officer is authorised and required to communicate directly with the chief accounting officer."

Committee of Public Accounts, first report of 1905, paragraph 30. Reaffirmed by second report of 1910, paragraphs 18-19.

amalgamated corps should remain temporarily under the control of the Finance Department. It is necessary that the constitutional responsibilities of the accounting officer should be safeguarded before the control can eventually (subject as above) be transferred to the Adjutant-General.

We fully realise that these changes cannot be carried into effect by a stroke of the pen. Not only is time required to form the corps of accountants necessary to the system we recommend, but in any case each step on the path to the conclusion we believe to be the right one must be watched with care.

(B) *Accounting for Parliamentary Purposes.*

52.—In view of the fact that the administrative account will contain the whole of the expenditure of each unit, and will show that expenditure under the same main heads as the account to be rendered through the accounting channels for Parliamentary account purposes, the preparation of the two accounts will be simultaneous: the only difference between them will be (*a*) one account may group under one main head expenses which in the other account will be shown under several subheads of that main head, and (*b*) the administrative account will not show the analysis between "cash," "stocks," &c., that will be shown by the other. The accounting channel through which the detailed and analysed accounts will pass will be from the unit or station accountant to the command accountant for co-ordination with the accounts of other units in the command, and from the command accountant the total account for the command will pass to the War Office.

## Sundry Points Arising out of the Inquiry.

*Organisation of the Proposed New Corps of Accountants.*

53.—At the present time the officers of the Royal Army Pay Corps are obtained by transfer of combatant officers with not less than three nor more than five years service in another arm. The appointment of officers to the Corps of Military Accountants has hitherto been confined to temporary officers serving with the corps, most of them qualified accountants who belonged to other arms of the service during the war, and the method of obtaining officers under normal conditions has not yet been settled.

54.—The present method of obtaining officers for the Royal Army Pay Corps will obviously be unsuited to the requirements of the proposed corps, since the officers of the latter will be required to have accounting knowledge far beyond that which could ordinarily be acquired by a regimental officer while serving with his regiment. It was laid down as far back as 1919 that future entrants to the Royal Army Pay Corps would be required to produce evidence of having reached a definite external standard of proficiency in accounting, such as a certificate of having passed the Final examination of one of the recognised bodies of professional accountants, before they were allowed to draw the rates of pay provided for the corps, but we are informed that the completion of definite arrangements to this effect has been delayed by the uncertainty as to the future of the corps.

55.—We regard this as a step in the right direction, but we consider that in view of the proposed amalgamation it will be necessary to give further consideration to the whole question of future entry to the corps, especially as to the desirability of entering some or all of its officers by competitive examination, limited to candidates with some definite accounting training, after interview by a selection board, and so avoiding the cost to the State of the cadets' training at Sandhurst and the practical loss of the training as a combatant officer given in his first years of service.

We are assured that it will be easy to recruit any number of young men of good standing, trained accountants, who would welcome the moderate emoluments, the social advantages and the safety of Government employ.

56.—We also think it should be possible to create a Reserve of Military Accountants, consisting of young qualified accountants who could on appointment be given a month's training in one of the offices, with a week's training in each subsequent year. On mobilisation these reserve accountants could be detailed for duty at the fixed pay centres, thus ensuring that the expansion of the work would be under the supervision of accountants familiar with the system.

*Training of other Officers.*

57.—We consider that the acquisition of an adequate knowledge of Army accounting should be a recognised part of the early training of all officers of the Army.

*Audit.*

58.—If the pay and accounting duties are decentralised as proposed in this report, and if the military accounting personnel is removed from the control of the accounting officer, it follows that the nature and scope of the internal audit must also be altered to meet the changed conditions. To make himself effectively responsible for the accounts he presents to Parliament the accounting officer may require to increase his local audit staff in order to make a more complete examination of the accounts than is at present necessary, and the dispersion of the "entitlement" work, now concentrated in a small number of centres in a way very convenient for audit purposes, will operate in the same direction. We recognise that in the sphere of pay, and to some extent of cash allowances, there is little prospect of departure from the system of strict control by regulation; but in other matters, if the control of expenditure is to be modified and more discretion given to the unit administrator, it will necessarily follow that the function of audit, apart from the detection of fraud and clerical error, will be to ensure that cases of gross waste or extravagance are properly dealt with by the higher administration. It has not been possible for us to pursue this question to the point of estimating the future cost of internal audit.

*Record Offices.*

59.—In view of the intimate association which has now been effected between record offices and regimental pay offices, and the fact that under present conditions any change in the constitution of the latter must necessarily affect the former, it has not been possible to exclude consideration of the present record office system.

60.—In the report of the sub-committee (appendix paragraph 35 (*k*)) it is proposed that the present record offices should be broken up, certain of their present functions (*e.g.*, the duplication of the soldier's record of service) being eliminated, some decentralised to units and others transferred to regimental depôts. It has been suggested that the transfer of certain functions to regimental depôts would necessitate the appointment of an officer to command each infantry depôt who should be senior to the commanding officers of the two battalions. In view, however, of the fact that the Committee presided over by Major (now Sir) C. G. C. Hamilton, M.P., considered that in the case of the infantry the duties other than those which they proposed to decentralise to units could be carried out by a combatant officer under the Regimental Paymaster, certain questions being referred for the decision of the area commander, we do not think that this is the case. On the other hand, it is suggested that statistical returns which are at present rendered by units to the record offices, there co-ordinated and forwarded to the War Office, could probably be more economically dealt with if sent direct by units to a special statistical branch at the War Office, where the volume would be sufficient to justify the use of machinery such as adding and tabulating machines. As regards the soldier's record of service, it is an obvious economy to keep it in conjunction with the pay list, and we think it possible that a complete examination of the question might show that much of the present duplication can be obviated. The cost of the record offices in the present year is about £200,000, and though the permanent level on present lines may (as we are informed) be expected to shrink eventually to about half that sum, there still remain possibilities of substantial savings which we commend to the very careful attention of the Army Council.

Summary of Conclusions.

61.—The main conclusions at which the Committee has arrived may be summarised as follows:—

(1) A proper system of accounting is necessary to the efficiency of the Army. Such a system has been wanting in the past.

(2) The new system inaugurated in 1919 should be carried to its logical conclusion. Amendments may be required to meet the special needs of the Army.

(3) A complete change in the system of administration should be carried out from the War Office downwards (see paragraphs 27-33), and administrative responsibility and accounting should be decentralised as far as individual establishments and regimental units (see paragraphs 16-25 and 49).

(4) The Royal Army Pay Corps and the Corps of Military Accountants should be amalgamated (see paragraphs 43, 44 and 46) and the question of future entry of officers should receive consideration (see paragraph 55).

(5) The work and personnel of the new Corps formed by the amalgamation of the Royal Army Pay Corps and the Corps of Military Accountants should be administered by the Adjutant-General to the Forces, subject to Parliamentary requirements (see paragraph 51).

(6) Re-organisation of the system and method of audit will be required (see paragraph 58).

62.—We consider that a committee should be appointed for the purpose of making detailed recommendations under (2), (3), (4), (5) and (6) of paragraph 61.

63.—We desire to place on record our great appreciation of the services rendered to us by our Secretary, Major A. B. Cliff. He has shown tact and ability of a high order and has rendered us invaluable assistance in formulating the conclusions which are recorded in this report.

## STOCK VALUATION IN INCOME TAX FRAUDS.

Samuel Henry Harris, aged 51, diamond merchant, of Hatton Garden, who pleaded guilty at the Old Bailey to making false statements in income tax returns, was on March 3rd sentenced to six months imprisonment in the second division. He was fined £5,000, and was ordered to pay the costs of the prosecution.

Mr. Travers Humphreys and Mr. H. D. Roome prosecuted. Sir Douglas Hogg, K.C., M.P., Mr. Roland Oliver, and Mr. Astell Burt defended.

Mr. Humphreys stated for the prosecution that the defendant made a confession to the superintendent of taxes at Somerset House, in December, 1921, that he had made false returns and that he had understated his profits for five years from 1916 by £16,426, on which £4,849 income tax and super tax should have been paid. He paid £5,000 to cover this, and no prosecution would have followed had his disclosure been a true and full one. Investigation by the Inland Revenue, however, revealed further concealed profits of £51,909, the total loss to the revenue in income tax, excess profits duty and super tax, being £39,892. Of this he had paid £30,000.

Mr. Justice Shearman, passing sentence, said that he had thought over the matter very carefully and had come to the conclusion that, having regard to the falsification of books, it was quite impossible to treat the case as one for a fine.

His Lordship said that he desired to make one observation about the defendant's system of valuing his stock which had been described as the snowball system. When he sold diamonds and pearls he returned no profit whatever, the excuse being that as he had not sold the whole of his stock he was not certain there was going to be a profit. It was quite obvious that if that were done a man might buy £10,000 worth of jewels, sell £9,999 worth and say there was no profit because the whole stock had not been disposed of. That was obviously a fraudulent system. The accountant before whom the matter came had said this practice was not unknown in the commercial world; his client was prepared to accept the view that it was wrong, and did not wish to defend it. "This practice," added his Lordship, "must disappear, and the sooner it does so the better."

## SIMPLIFICATION OF INCOME TAX AND SUPER TAX FORMS.

### Report of the Departmental Committee.

*Members of the Committee:* The Hon. Mr. Justice Rowlatt (*Chairman*); Sir Arthur Shirley Benn, K.B.E., M.P.; The Hon. Sir William Finlay, K.B.E., K.C.; Sir Richard Hopkins, K.C.B.; Mr. H. B. Lees-Smith, M.P.; Sir William McLintock, K.B.E., C.V.O.; Sir William Pearce.

*Secretaries:* Mr. M. B. Clayson; Mr. John Lake.

*Terms of Reference:* "To consider any simplifications which may be practicable under existing law in the return forms, claim forms and notices of assessment issued in connection with income tax and super tax, and to make recommendations in regard thereto."

### Report.

To the Right Honourable the Chancellor of the Exchequer.

1.—We, the Committee appointed "to consider any simplifications that may be practicable under existing law in the return forms, claim forms and notices of assessment issued in connection with income tax and super tax, and to make recommendations in regard thereto," have the honour to report as follows:—

2.—We have met on ten occasions. Before commencing our sittings we issued a public appeal for suggestions, and specially invited ten organisations to assist us. We received written memoranda from the Board of Inland Revenue, who are responsible in law for prescribing the forms, from six of the ten organisations referred to, from five other organisations which proffered their assistance, and from a number of individuals. Oral evidence was given on behalf of the Board by Sir Edward Harrison (the Chief Inspector of Stamps and Taxes), by representatives of eight organisations, and by one individual, namely, Mr. W. H. Behrens, a solicitor in the City of London. The organisations from which we have received evidence are, in our opinion, representative of the tax-paying public and of their professional advisers. To all these bodies and persons we tender our thanks for their assistance.

3.—We received an important memorandum from the London County Council. As, however, the suggestions it contained were directed rather to secure fuller information from property owners liable to assessment than to simplify forms we did not consider it within our province to discuss them. We understand, however, that the memorandum will receive the consideration of the Inland Revenue Department when the relevant forms are next revised.

4.—We have had the advantage of perusing the Report of the recent Royal Commission on the Income Tax. On many points we feel that after a fresh and independent investigation we merely re-echo their conclusions.

5.—We append copies of the letters and memoranda we have received and a list of the names of those who have appeared before us. (Appendix I.*) We have not preserved a shorthand record of our proceedings, for it did not seem to us that we could most usefully achieve our object by a very formal examination of the witnesses, and we proceeded to reach our conclusions by a more or less informal discussion between ourselves and with the witnesses.

6.—We may say at once that we are unable to recommend any far-reaching or fundamental re-casting of the forms. It is perhaps easy for the individual taxpayer who knows his own circumstances to conceive that a form might be addressed to him which would meet all the requirements of his case for the purposes of the Revenue and which would be extremely simple. Looking at the matter from the point of view of the Board of Inland Revenue, who have to face a vast multitude of taxpayers whose circumstances vary infinitely and bring them within a great number of separate and complicated provisions, the problem is far different.

[* The list of witnesses, &c., is printed on page 190. The letters and memoranda are not published.]

7.—We have not thought it desirable to encumber our report with small verbal criticisms upon the language of the forms. Possible improvements in phraseology have suggested themselves here and there, and these have been noted and will be taken into account by the Board of Inland Revenue.

8.—We are glad to be able to add that in a number of instances criticisms made by witnesses have been met to their satisfaction by explanations on behalf of the Board of Inland Revenue.

INTRODUCTION.

9.—We should like to commence by stating in outline the conditions which govern the preparation, issue and collection of these forms.

10.—The income tax is a multifarious tax. It is levied under five schedules. At least two contain many sub-divisions. The most comprehensive of all, viz, Schedule D, contains six cases relating to various classes of income with different measures of taxation.

11.—Again, the collection of income tax takes two distinct forms. As far as possible it is collected by deduction at the source of the income. Land is assessed in the hands of the occupier, and the landlord, rent-charger or mortgagee suffers deduction of his proportionate tax when his income is paid him. Income from investments paid in this country is, speaking generally, paid less deduction for income tax in a similar way. In such cases no returns are required from the taxpayer for the purposes of charging him.

12.—On the other hand, where income is not of this nature, as in the case of trades or professions and of investments bearing interest or profits abroad, a return is required from the taxpayer in order to reveal to the Revenue Authorities the existence of this income. For this purpose "Particular Notices" under sect. 100 and Schedule V of the Income Tax Act, 1918, have to be issued to him. These are the "Return Forms" which we are asked to consider.

13.—The above in outline was the original scheme of the income tax. As originally introduced it might almost have been described as an aggregate of separate taxes, though all, of course, based upon the broad principle of taxing income. While it retained that form unadded to, no return of total income was necessary, save in the limited cases of persons who claimed total exemption, or, later in the history of the tax, abatement. With the introduction of the super tax, in 1910, a return of total income became obligatory on all persons falling within the scope of that tax. But now, since by the Finance Act of 1920 a system of allowances has been introduced applicable to every case, a return of total income, taxed and untaxed, is practically always necessary. We say practically because it is not obligatory except in the sense that a taxpayer cannot, speaking generally, get his allowances without it. The gathering together of the various items of income arising in different places in the case of every taxpayer without the multiplication and complication of forms is more difficult than perhaps might be realised at first sight, and it is fair to the Board of Inland Revenue to say that it presents a problem of such complication as to make it unfair to expect it to be solved without a few years' experience. We shall recur to this matter later.

14.—It has been put to us that a return of total income is not necessary except to the extent of the reliefs claimed. One important head of relief, namely, life insurance, depends on the proportion borne by the premiums to the whole income of the claimant. The only taxpayers whose total income need not be fully ascertained are those whose income is above the total of their allowances and below the super tax limit, and who have no life assurance. This class is not large enough to justify the elaborate arrangements necessary to segregate them.

15.—We have mentioned two general purposes for which forms must be addressed to the taxpayer, viz, for a return of assessable income (which is obligatory) and for a statement of total income (which is invited in his own interest). There is a third class of communication which must accompany both, and that is explanations. This triple necessity must always be kept in view. It lies at the root of the problem of shaping the return forms.

16.—One broad suggestion which was made before the recent Royal Commission on the Income Tax and adopted by them, and of which we have also heard something, was that the forms might be simplified if all the explanatory matter were reduced into the form of a booklet to be supplied to taxpayers at low cost. Apart from other difficulties, we must point out that the income tax law is perpetually being modified and any booklet would necessarily become out of date, and the taxpayer would find himself tempted to work by out-of-date editions, and confusion would be increased instead of diminished.

17.—Alterations in the law have a further bearing. It frequently happens that they are made at a period of the year when forms for returns have necessarily been already sent out and of course long after the year's supply of such forms has been printed. These alterations (at any rate, when in favour of the subject) generally relate back to the beginning of the year. The forms or explanations already in the hands of the taxpayer thus become in some particulars inaccurate, incomplete or even misleading. Corrections have then to be addressed to him, perhaps after he has filled up his form and dismissed the matter from his mind.

18.—Yet another element of complication is introduced by the circumstance that assessable income is assessed at the place at which it arises. This is necessary for the protection of the revenue. At any rate it is clearly required by law. In addition the general issue of forms and notices, and on the letter of the law, though not in practice, the actual computation of the liability is carried out by officials of numerous independent bodies of local commissioners. This leads to a multiplication in the number of the forms which many individuals receive.

19.—The system as provided by law, under which the forms are issued by the divers persons engaged in the administration of the tax, is one of which an adequate conception can be formed only by a perusal of the statutes. It tends to increase the difficulties that would in any event be experienced by many taxpayers in understanding the forms. We ascribe a great deal of the confusion in the public mind as to the meaning of the various forms to the fact that they reach the taxpayer from sources which in his view are unrelated to each other.

20.—The duty of issuing and getting in forms of return is in the main entrusted to the assessor of taxes in each parish, an official appointed by the District Commissioners of Taxes who are responsible for the local administration of the tax in each division of the country. The person so appointed is often not an income tax expert in any sense, but simply a local resident, generally with other avocations. The notices of assessment are issued by other officials, the clerks to the District Commissioners, and the demand notes by the collectors of taxes, although some reduction in the number of local officials engaged in administration is normally effected by appointing the same person to act both as assessor and collector.

21.—The fact that a reasonable degree of uniformity is maintained in the administration is due to the co-ordinating influence of the Board of Inland Revenue, exercised mainly through their trained officials, the inspectors of taxes, who are constantly in touch with the officials of the District Commissioners of Taxes and whose expert knowledge is available to them.

22.—Statutory provision is made for the issue of forms only in certain limited circumstances by the inspectors of taxes, but seeing that in practice the inspector's staff usually carries out the examination of returns and claims and the computation of liabilities and repayments, a much greater variety and number of forms is in fact necessarily issued from their offices than is contemplated in the old statutes. But so far as the issue of return forms is concerned, the system is that they are issued generally by untrained local officers who act for small areas, and are employed only to a limited extent in the work of computing actual liabilities and reliefs.

23.—While recognising that this is the system prescribed by existing law, we have been acutely aware throughout the whole course of our inquiry that it is a factor which checks simplification.

THE NUMBER OF FORMS.

24.—As regards the number of forms in use, the point is, of course, not how many the Board of Inland Revenue have in their offices to meet different cases, but how many the individual taxpayer receives in relation to his particular case. If he is required to make a return of income by more than one form, it is either because the several forms relate to different classes of income (in which case, though there is multiplicity, there is in no sense any overlapping), or, secondly, because he has sources of income of similar kind arising in different places (in which case there is no overlapping as regards items, though there is as regards description), or, thirdly, because he has several addresses (in which case he may receive demands for returns which overlap each other in every sense). We will deal with these points in order.

25.—With regard to the forms for different classes of income, we do not think anything substantial can be done in the way of consolidating two or more forms into one. Substantially the various forms now in use must be retained. Real simplification would not be achieved by consolidating forms. The result would be that one form would have to serve divers purposes. The tendency of the Board has been the opposite one, viz, to devise separate forms for separate classes of cases as far as possible, and we think this is the direction in which true simplification lies. It is true that the number of forms that may issue is increased. We do not think that the complication to the individual is increased.

26.—We will examine the principal suggestions for consolidation which have been made to us. It was urged by one witness that the separate return for super tax might be dispensed with, the return of total income for the purpose of obtaining the allowances being made to serve for super tax also. Under the existing law this is impossible. The return of total income for the purpose of the income tax allowances is made largely by way of forecast at the beginning of the year and may be falsified by the result. Dividends, for example, may be higher or lower than anticipated. The return for super tax so far as tax-deducted income is concerned has to be on the actual income of the past year. Alike from the point of view of the revenue and of the subject these results must be awaited. If anticipated, subject to correction later, the result would be greater and not less complexity. We point out, however, that the converse to this suggestion (viz, the prætermission of a total income return for allowances in cases where a super tax return is made) is to some extent in operation (see paragraph 35).

27.—Again, *primâ facie* there would appear to be some force in the suggestion that where a taxpayer claiming repayment in respect of a farming loss has made a return of his total income for the purpose of claiming the reliefs dependent on marital and family circumstances, &c., he should not be required to make a second return in connection with his loss claim. Here again, however, it is to be remembered that the return for the purpose of claiming reliefs is normally prepared early in the year of assessment on an estimated basis and in the absence of information which may materially affect the computation of the repayment on account of the farming loss.

28.—The most important consolidation advocated before us was, however, the amalgamation of Forms 11 and 12 (Schedules D and E, respectively). This was put forward in the memorandum submitted by the Society of Incorporated Accountants. Now Form 11 (Schedule D) is already the most copious and elaborate of the common return forms, and it embraces matters with which a large number of the 1,250,000 persons who receive Form 12 (Schedule E) have no concern. Under recent legislation the taxation of about 250,000 persons has been transferred from Schedule D to Schedule E, and one of the advantages of that change is that all these persons will receive a simpler form. To a comparatively small number of persons in good positions it might be more convenient to be able to deal with salaried and other income on one form. But with regard to the mass of employees, their form should be limited as far as may be to their income from employment. If they have any income under Schedule D not taxed by deduction it is probably some small amount of War Loan interest. In order to obtain the tax upon such income without troubling the recipients with the complexities of Form 11 (that is to say, pursuing an idea exactly contrary to that embodied in the amalgamation now under consideration) the Board are working to a system under which it will be secured under the return of total income for the purpose of obtaining allowances.

29.—While, however, we are in favour of specialisation of forms as against consolidation, we cannot help observing that the fact that the return forms and some of the claim forms are issued by inexpert local officials, whose standard of efficiency varies greatly, limits the number of special forms which can be provided to meet special circumstances. In many instances it necessitates the issue of comprehensive and therefore complex forms to taxpayers who might be classified into categories by a whole-time trained staff and spared the task of studying provisions of the law with which they are not immediately concerned.

30.—Another suggestion that we have received is that simplification could be promoted by combining the notice of assessment and the demand for payment into one form to be issued some time in advance of the due date for payment. This method is employed in the collection of income tax in Scotland, but in England and Wales and Northern Ireland the notices of assessment to income tax are issued some two or three months in advance of the demands for payment.

31.—The change referred to was advocated by the Income Taxpayers' Society on the ground that taxpayers lose their notices of assessment and then find that they cannot check their demand notes. This objection from one point of view is not meritorious, but from a practical point of view that is not the question. If the suggestion could be adopted we consider that it might in the long run prove to be convenient both to the taxpayer and to the authorities, although for a few years taxpayers might be inclined to forget to pay their tax unless they were to receive a reminder at a date corresponding with the present demand note. From this cause the collection of the tax in the early years of the suggested new system might be delayed, with no appreciable decrease in the number of forms issued, and with some increase in the cost of administration.

32.—There are, however, undeniable difficulties. The scheme of the existing law is as follows: First the assessments are to be made and notified with an intimation of the right of appeal. Then time has to be allowed for the appeals. Then a duplicate of the book of assessments is issued to the collectors. That is the first authority they get to receive payment of the tax, and the legislature doubtless in view of their position as annually appointed officers enacted the most stringent provisions to prevent them receiving it before. Obviously if the system is followed the notice of assessment must precede the demand for payment. In Scotland, where for many years the collectors of taxes have been permanent civil servants, the system has been waived. As regards England, where the local machinery retains the character contemplated by the statute, we do not see how the statutory routine, so long as it remains prescribed, can be justifiably departed from.

33.—We now pass from the question of the consolidation or amalgamation of forms to that type of multiplicity which consists in the issue of similar forms to one individual in respect of similar income in different places or in respect of his different addresses. Both types of duplication are traceable to the local character which the law, subject to which we report, has impressed on the assessment of income tax. It is the duty of the local authorities to elicit returns of the income which they see being earned in their districts, or which may be received by persons having addresses there. It is easier to suggest in a general way that their inquiries for this purpose should be so co-ordinated as to avoid overlapping than to particularise the machinery by which that result can be achieved. Again, in this connection it must be remembered that the issuing and ingathering of the statutory forms of return is not in the hands of direct subordinates of the Board of Inland Revenue.

34.—Although we have had evidence that every effort is made to restrict the unnecessary issue of return forms, the fact that the forms are issued by these local officers, who act in relation to small areas and are employed only to a limited extent in the work of computing liabilities and reliefs, undoubtedly leads to duplication.

35.—The difficulties just referred to apply most acutely in the case of returns for assessment. As regards the return of

total income for allowances we hope it may not be impossible, given time for experience to be gained of the new system and for the necessary organisation to be perfected, to secure that each individual should normally receive only one form for this purpose. Already, in the case of some payers of super tax, it has been arranged that their return of total income for this purpose shall serve for their allowances. Still, even in their case, the form is delivered to them with each local demand for a return for assessment, though they are told upon the face of it that if they make a super tax return that will suffice. To carry the idea a step further, and to secure that in the case of each taxpayer one local authority shall be charged with the duty of seeking this information and all others relieved of it, is no easy matter. It would involve, too, the separation of this part of the document from that which requires a return for assessment, so that both, or the latter only, can be delivered, as the case requires.

### The Copiousness of the Forms.

36.—The complexity of the income tax itself and of modern life makes it inevitable that the forms should be copious.

37.—We wish to say at once that we have found no desire whatever on the part of the Revenue Authorities to cling to forms or retain matter upon the forms out of mere conservatism, still less for any love of verbiage for its own sake. On the contrary, we are convinced that they are, and always have been, perfectly ready to welcome any suggestions for simplification which will make matters easier for the taxpayer without exposing the Revenue to loss.

38.—Having said that, we must point out one or two governing considerations. First of all the demand of returns must be pointed and categorical. Suggestions have been made to us that some very wide request for information which the taxpayer could comply with in the sense of his own case would be sufficient. We do not think this idea can be entertained. Apart from the danger that the taxpayer would be tempted to overlook part of his income and that under such a system there would be difficulty in punishing him, we think that in a great number of cases the information would be supplied in the form of vague and argumentative statements which would not serve the public purpose.

39.—Another suggestion was that in the first instance a form in simple and general terms might be addressed to the taxpayer, leaving him to apply for fuller information. We cannot adopt any such idea. We think it would lead to increased trouble and cost in every direction. The forms as issued must cover all the ground.

40.—The scope of the forms must, moreover, be kept wide enough to secure all the tax payable. It was suggested, for instance, by the Income Taxpayers' Society that Form No. 1 (Schedule D), the return form for companies and firms, was unnecessarily wide, inasmuch as the figures in such cases are agreed with the inspector of taxes and the assessment is made in one amount. But the Revenue cannot act on the assumption that in every case the obligation to return will be superseded by an amicable arrangement. Moreover, as companies and firms may have untaxed investment income assessable as such according to different measures, the form must contain the sections necessary to embrace them.

41.—The difficulty of reducing copiousness is indeed very great, though it is easy not to realise it till the pen is taken in hand for the task. One witness was good enough to prepare a specimen printed form at once brief and simple. On inspection, it was found to be a skeleton only, each compartment having a note that it was to be completed "as per the existing form."

### Forms for Return of Total Income.

42.—A form of this character must be issued to every taxpayer. The demand is in his interest, being part of the machinery of making his allowances. It must also be so framed as to elicit the facts on which the allowances depend. These are very numerous, and spaces and directions must be provided for the necessary entries. Few, if any, are entitled to all the allowances, but as nearly every one is entitled to some a complete form must go to all. Even if the taxpayer has nothing to return because all his income is taxed by deduction, he still must fill up a form of this character to get his allowances by way of refund. It goes without saying that all who are asked for a return of income for assessment must also be asked for a return of total income and the facts relevant to allowances.

43.—The problem is how to associate in the manner least likely to cause confusion the two entirely separate demands for a return of income to be taxed and a return of total income for the purpose of allowances respectively. The system adopted is that in the forms which are issued under Schedules D and E there is appended to the demand for a return of the taxpayer's income for taxation an invitation on another page to return his total income for the purpose of allowances. This undoubtedly makes the whole form wear a very formidable appearance, and it is extremely difficult to say how this can be avoided.

44.—We do, however, make this suggestion. We think it would be of value from a practical point of view, if only as an inducement to more sympathetic reception of the forms, if it could be made quite obvious on the face of the form that the invitation to return the total income and to fill up all the spaces as regards family circumstances which are found on this particular part of the form is really addressed to the taxpayer in his own interest, so that the part of the form which he has to fill up for the purpose of assessment will be seen to be much the smaller part of it. In connection with this it would be a great improvement—and stress has been laid on this in several quarters—if in filling up the return of his total income he were not required to state over again in detail the amount returned on the earlier part of the form for assessment purposes. Sir Henry Buckingham, M.P., representing the Income Taxpayers' Society, agreed with this suggestion.

45.—We submit with this report a new edition of the most used and most complicated of all the forms, viz, Form 11, relating to Schedule D of the Income Tax Acts (Appendix III*). It will be seen that we there indicate how we think the above recommendations as regards the return of total income might be given effect to.

46.—It was suggested by more than one witness that the return for assessment and the return of total income might be merged. But there are two legal objections to this. In the first place, one is obligatory under penalty and the other is not. Secondly, the law requires two separate declarations. The total of the first return must be carried as an item into the second. The law must be followed accurately. The penalty for a false declaration will not apply if it has been departed from.

### Notes and Explanations.

47.—As the law lays down many rules to govern the computation of income for tax purposes, it is inevitable that notes and explanations must accompany the demand for returns. They cannot be very brief, and they cannot be dispensed with even if many will not read them. As was pointed out in the report of the Royal Commission, the rights as well as the duties of the subject must be brought to his attention, and in doing so the wording of the statutes must, generally speaking, be literally followed. It is, in our judgment, no use at all to talk of easy and popular language in this connection. It would be inexpedient as well as unjust to them to expect the Inland Revenue Department to paraphrase the enactments of Parliament.

48.—We have already given our reasons for thinking impracticable the suggestion that these notes and directions should be made the subject of an independent booklet. We think there is no escape from the conclusion (with which many of the witnesses agreed) that a sheet to accompany the forms is the only vehicle for this matter, and that its various paragraphs must be connected by references with the sections of the main form to which they relate respectively. How to carry out this clearly is a problem. But it is a mechanical problem of printing style and arrangement. At our invitation some alterations have been devised by the Inland Revenue Department. They can be seen embodied in the specimen Form 11 which is appended.

### Clearness in Spacing and Printing.

49.—We think that it is under this head, and possibly in the use of rather better paper, that such improvement as can

[* Appendix III is not reproduced by us.—Eds., *I.A.J.*]

be achieved must be looked for. But this, too, is not free from difficulty. In the first place, there is the question of expense. Secondly, there is something of a dilemma in the choice between more space with greater volume and smaller volume with the danger of cramping. The embarrassment is accentuated by the differing circumstances of individuals. The man with but two or three items to enter asks why he has been handed so bulky a document. Another with a large and multifarious income protests against the narrow space allowed him to write upon.

50.—As regards expense, we have communicated with the Stationery Office and learn that the cost of expanding (for instance) Form 11 to the dimensions shown by the specimen we append would not be unreasonable. As regards the choice between obscurity and volume, we think the latter the less objectionable. We summarise the position as regards these return forms by stating again that there are three broad objects to be achieved in the case of every taxpayer, namely:—

(1) To elicit particulars of his income for assessment,

(2) To obtain a return of his total income (whether for assessment or not) and his family circumstances in order to accord him his allowances, and

(3) To afford him the necessary explanations.

In the communication addressed to the taxpayer there must be a chapter for each purpose. It is impossible to make it brief, and difficult, even with length, to make it clear.

### Assistance to Taxpayers.

51.—In view of the unavoidable complexity of many of the forms it is natural that taxpayers should look to the authorities for guidance in matters which they themselves are unable to comprehend. We have given considerable attention to this aspect of our inquiry, and we have examined with care and sympathy the various suggestions which have been made to us for affording assistance to taxpayers in addition to that which is already provided by the administration. At the same time, we are bound to draw attention to the fact that whatever additional assistance may be provided will involve expenditure to be met by taxpayers as a whole.

52.—So far as the contents of the form are concerned, we are satisfied that every effort is made to assist the taxpayer, as far as is possible, by the provision of directions and explanatory notes, and although various suggestions have occurred to us for the better display of the matter printed on the forms, we see no reason for criticising their contents generally, either on the ground of inadequacy or of lack of lucidity. We are of opinion that the further assistance of which the taxpayer feels himself in need is personal assistance at the hands of an expert in income tax law and practice, rather than assistance by means of additional printed matter.

53.—We accordingly direct attention to the fact that in every town of importance there is an official of the Board of Inland Revenue known as "H.M. Inspector of Taxes," at whose office the taxpayer may obtain information and guidance relative to his income tax affairs. On many of the forms in use at present the taxpayer is invited to apply to this official for such assistance as he may require, and we recommend that, in all forms issued to the public for completion by them, a prominent note should appear to the effect that the inspector of taxes will assist the taxpayer where necessary.

54.—Another suggestion made to us for the general assistance of taxpayers was that forms which are sent to the taxpayer for completion should be issued in duplicate, so that a copy of the information supplied might be retained by the taxpayer. Apart from the question of expense, we do not think this is desirable. Most taxpayers would regard the additional form as aggravating the complication, and we are sure that but a small proportion would use them. We understand that the request of a taxpayer who desires to be supplied with a duplicate of any form served upon him for completion by him would be acceded to, and we recommend that the note to this effect which already appears on certain of the return forms should be printed on all the forms issued to the public for completion by them.

### The Granting and Notification of Allowances.

55.—A complication has developed owing to the circumstance that, whereas the separate heads of a person's income are taxed independently, he is entitled to allowances in respect of his income viewed as a whole. For instance, an individual may have some investments taxed by deduction, property in various places, a business or profession in another place, and salaried appointments, say, as a company director, in other places. His properties, his business and his appointments are the subject of separate assessments in separate localities. It may well be that no one of these sources yields income large enough to meet the allowances to which he is entitled, and even if the income from one or more sources is sufficient for this purpose, still it has to be arranged somehow or other where the allowances are to be applied and where the tax is to be collected in full.

56.—Again it may be that the whole of his assessed income is insufficient to meet his allowances, or he may have no assessed income. In the former case some and in the latter the whole of the total allowances must be made in the shape of a refund of tax which has been deducted from his investment income.

57.—All these matters have led to complication which in a sense is outside the main purpose of the income tax forms, or at any rate outside the purposes of the Income Tax Acts as originally conceived. We refer to it because stress has been laid upon it by a number of taxpayers who have communicated with us.

58.—We are, however, informed on behalf of the Board of Inland Revenue that it is hoped to make arrangements to gather up from the various local authorities the particulars of each individual's income and to place the arrangements for the apportioning of the allowances exclusively in the hands of one of them. If this can be done it will obviate what is obviously a source of annoyance and confusion to a great many taxpayers, but we think it only fair to emphasise that this is a matter which will involve somewhat elaborate organisation and that the Revenue Authorities are entitled to be given time in order to achieve it.

59.—Again, our attention has been drawn to the circumstance that claimants to repayment of income tax sometimes are allowed or repaid less or more than what is claimed, and that this raises a difficulty which they have no means of solving. It not infrequently happens that the income is insufficiently returned. In other cases it is not appreciated that so-called "tax free" dividends have for the purpose of repayment been taxed and so may afford material for a refund. In the former a smaller amount and in the latter a larger amount than that claimed is allowable. We think that in both classes of cases a statement should be furnished explaining the discrepancy, where any exists, and we understand that the Board of Inland Revenue are about to arrange for that being done.

60.—To minimise the confusion caused by "tax free" dividends we have had it suggested by the National Citizens' Union that companies should be compelled by law to show upon the warrant the gross amount and tax represented by such "tax free" dividend. We record the suggestion. It is not within our terms of reference to examine it.

61.—Another difficulty which has arisen is this: The aggregate of the assessments upon an individual may not appear to afford scope for his allowances. If he has in fact paid or suffered deduction of further tax he is entitled to a refund. If this is the case it should have been apparent from his return of total income. To protect him, however, the Board have devised two forms to be addressed to such persons with the object of eliciting information as to any further tax paid or deducted, by refunding which the allowances can be met. We append these forms (Appendix IV*). They are, of course, issued entirely in the interest of the taxpayer.

62.—Lastly, in order that taxpayers may be satisfied that they have had the full benefit of the allowances granted to them by statute by reason of their marital and family circumstances, &c., the Board of Inland Revenue contemplate extending the existing arrangements as soon as circumstances permit, so as to ensure that, normally, a taxpayer shall receive annually a statement giving particulars of the allowances

[* The forms are not reproduced.]

due to him under these heads and indicating the particular assessments from which such allowances have been granted.

63.—If a statement of his allowances can be issued to every taxpayer it would meet a complaint in the case of partners whose allowances as individuals have to be credited against tax assessed on the firm. At present the allowances are often communicated as an unapportioned sum, which causes inconvenience. On the other hand, if it was stated how they were arrived at matters would necessarily be revealed to partners which the individual affected might consider did not concern them.

64.—As regards the forms themselves for claiming repayment of income tax on account of the personal allowances and reliefs we think that, subject to minor suggestions for improvement in matters of detail to which we have drawn the attention of the official witness, and possibly to better printing and spacing, no criticism upon them is called for.

### Particular Forms.

65.—We propose to deal first with the problems presented by the different forms in their character of demands for returns for assessments solely. The notices of assessment and demand notes will also require our consideration. Copies of the existing prints are enclosed in Appendix II*.

#### *Super Tax.*

66.—A broad distinction exists between super tax and income tax. The super tax is a very simple tax which is assessed in a single sum on the individual liable. The liability is determined by the amount of the income of the previous year for income tax purposes. Moreover, it is devoid of personal allowances and reliefs. The complications of the income tax we have already noted.

67.—When, therefore, it is pointed out, as it has been to us, that super tax is collected upon a very simple form and it is asked why income tax cannot be dealt with on the same lines, it is only necessary to say that the two cases are not comparable.

68.—We may at once dispose of the super tax form. No important criticism upon it has been brought to our notice and we do not think we can usefully offer any suggestions for its improvement. One or two verbal improvements have been suggested or have occurred to us of which note has been taken, but it is not necessary to mention them here.

#### *Schedule A Forms (Nos. 1 and 2 in Appendix II*).*

69.—As regards the forms of return and notices of assessment relating to tax under Schedule A, it may be mentioned that a re-assessment of the annual value of lands and houses is made only at intervals of several years, but in view of the present re-assessment some amount of attention was naturally given by witnesses to the forms used in this connection. The Land Union complained of the difficulty experienced by land agents in obtaining particulars of repair deductions. There is some anomaly in the system whereby the amount of tax borne by the landlord is settled with the tenant who merely deducts it from his rent. This, however, is the scheme of the Act: To notify separately all property owners of the deductions made for repairs would involve more cost than would be justifiable.

70.—In this connection we wish to point out what appears not to be understood that relief on account of maintenance of property may be claimed before the tax is paid.

71.—We have come to the conclusion that apart from certain minor matters which we have brought to the notice of the official witness, no serious criticism of these forms is required. In this opinion we are supported by the evidence of an important organisation of property owners.

#### *Schedule B Forms (Nos. 3 and 4 in Appendix II*).*

72.—The forms relating to tax under Schedule B concern only the occupiers of lands and of woodlands. We have received no evidence of any general dissatisfaction with the existing forms, except that the form of account provided for the use of farmers whose profits in any year fall short of the annual value assessed is alleged to be unduly complicated.

73.—As regards this form of account (No. 4 in Appendix II*), we have been informed by the official witness that the form was prepared after consultation with a number of representative agricultural organisations. In these circumstances we have considerable doubt whether any alternative form that might be devised would meet with general approval by the taxpayers for whom it is designed. The Inland Revenue Department, however, have undertaken to review the form in consultation with the various organisations and to consider such suggestions as have reached us.

[* The forms are not reproduced.]

#### *The Schedule D Return Form No. 11 (No. 5 in Appendix II*).*

74.—Just as Schedule D is the most extensive of the schedules into which the tax is divided, so is the principal return form relating to this Schedule the most complex of the forms, and we have been informed that it is to this form that criticism has in the past been principally directed.

75.—In main outline the form consists of—

(1) The requirement of a return of income for assessment under six heads corresponding with the "cases" into which Schedule D is divided in the Income Tax Act of 1918;

(2) The statement of total income from all sources for completion by a taxpayer claiming the personal allowances, and provisions for particulars of the claims;

(3) Notes and directions for the information and guidance of the taxpayer.

76.—Variants of the main forms are provided for the use of companies and firms (see No. 6 of Appendix II*) and of persons domiciled or ordinarily resident abroad. We have considered the suggestion that a separate form should be provided containing only the requirement of a return of the profits of trades, professions and vocations, and the explanatory notes relative to that requirement, and that another variant excluding these particulars should be issued to persons not engaged in any trade, profession or vocation. Whilst this suggestion has certain theoretical advantages, it must be remembered that it is the duty of the Revenue officers to demand a full return (Income Tax Act, 1918, sect. 100), and apart from the fact that it would be inconsistent with the statute, the proposal involves giving powers of discrimination to local assessors which they could not in every case be safely entrusted with. Moreover, we doubt whether in practice it would effect any substantial simplification.

77.—We have also considered a number of suggested substitutions for the existing form, and although we have benefited from the close examination of these detailed proposals, we are unable to recommend any of them for adoption *in toto*.

78.—As already stated, we append a draft of this revised form which we recommend as an indication of the lines on which improvement might be effected. It consists of eight pages instead of four, as in the case of the present form, and the explanatory notes also occupy eight pages. Although we have found it impossible to reduce materially the amount of printed matter on the form, we consider that if the printed matter were better spaced, and a large type employed in printing it, as would be possible if an eight page form and an eight page enclosure were adopted, the taxpayer would find it a great improvement.

79.—In this revised form we have incorporated several alterations in the wording of the present form that we consider to be improvements. There is one difficulty in connection with it that is hard to deal with. Income from employments (Schedule E) must not be returned for assessment under this form, and this no doubt causes perplexity to many taxpayers. At the same time it cannot be unequivocally announced on the face of the form that it has nothing whatever to do with such income, because that has to be included in the return of total income provided for by the latter portion of it. We have already, in paragraph 28 of this report, given our reasons for thinking that the solution is not in the direction of amalgamating the two forms. But, as we there point out, fewer people (at least among the less educated class) having income from employments will in future receive Form 11 at all, and we think that those who do will find this point made clearer on the specimen we submit. The difficulty may therefore be less widely felt in future.

[* The forms are not reproduced.]

*The Schedule E Return Form No. 12 (No. 7 in Appendix II*).*

80.—We have carefully considered the form of return of income for assessment under Schedule E and have reached the conclusion that it is a reasonably simple one. We have no suggestions to make in regard to it specifically. It is understood that the kind of improvement we suggest on Form 11 (Schedule D) will be extended to this form.

*Forms issued to Wage-earners (Nos. 8-11 in Appendix II*).*

81.—We have considered in detail the forms used in the quarterly assessment of wage-earners and we have found them to be free from any avoidable complexity.

*Notices of Assessment (Nos. 12 and 13 of Appendix II*) and Demand Notes (No. 14 in Appendix II*).*

82.—We consider that an improvement in the form of notice of assessment might be made on the lines indicated in Appendix V to our report. Additional information, as compared with the present form, is given on the face of the form that we suggest. In designing this form we have endeavoured also to meet suggestions that the contents of the existing form might be spaced more advantageously. We recommend that, on the reverse of the form, particulars of the statutory allowances and deductions to which the taxpayer is entitled should be given, so that this information may be in his hands not only when he makes his claims, as at present, but also when he receives particulars of the assessments upon him.

83.—We have been informed that it is not always easy for the taxpayer to associate demands for payment of tax under Schedule A with the particular properties to which they relate and to this matter we have drawn the attention of the official witness.

84.—On a further suggestion made to us we are of opinion that it would be convenient if the address of the appropriate inspector of taxes, in addition to that of the collector, were shown on all first demands for payment of the tax.

Dominion Income Tax Relief.

85.—We have left this subject out of consideration. It is so new and difficult that criticism of the forms used would at present be premature.

86.—In conclusion we must express our thanks to the Board of Inland Revenue for allowing us the use of their board room for our meetings, and to our joint secretaries, Mr. M. B. Clayson, of Somerset House, and Mr. John Lake, of the Royal Courts of Justice, for their services.

(*Signed*) S. A. T. Rowlatt, (*Chairman*), Arthur Shirley Benn, William Finlay, R. V. Nind Hopkins, H. B. Lees-Smith, Wm. McLintock, Wm. Pearce.

M. B. Clayson, John Lake (*Secretaries*).

*July 23rd, 1923.*

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### List of Witnesses, &c.

(1) *List of Organisations which were specially invited to assist the Committee.*

Association of British Chambers of Commerce;
Association of Clerks to Commissioners of Taxes;
Central Landowners' Association;
Chartered Accountants of Scotland (Joint Committee of Councils);
General Council of the Bar;
Income Taxpayers' Society;
Institute of Chartered Accountants;
Law Society;
Scottish Land and Property Federation;
Society of Incorporated Accountants and Auditors.

(2) *List of Organisations which submitted written memoranda to the Committee.*

Central Landowners' Association;
General Council of the Bar;
Income Taxpayers' Society;
Institute of Chartered Accountants;
Keighley and District Chamber of Trade;
Land Union;
London County Council;
National Chamber of Trade;
National Citizens' Union;
Scottish Land and Property Federation;
Society of Incorporated Accountants and Auditors;
Surveyors' Institution.

(3) *Names of Witnesses who attended before the Committee on the dates stated.*

*February 23rd, March 2nd and 9th, 1923.*

Sir Edward Harrison (Chief Inspector of Stamps and Taxes, Board of Inland Revenue).

*March 16th, 1923.*

Mr. G. Erskine Jackson (Scottish Land and Property Federation);
Mr. H. W. Carlton and Mr. P. S. Gardiner (Central Landowners' Association).

*April 20th, 1923.*

Mr. Abbott, Mr. Heywood and Colonel Brighten (National Citizens' Union);
Mr. Crofton Black (Land Union).

*April 27th, 1923.*

Sir Henry Buckingham, M.P., and Mr. Charles Foster and Mr. G. B. Richmond (Income Taxpayers' Society);
Mr. A. A. Garrett, Mr. A. E. Green and Mr. W. Strachan (Society of Incorporated Accountants and Auditors);
Mr. J. Walker Clark, J.P., and Mr. B. T. Stevenson (National Chamber of Trade).

*May 4th, 1923.*

Mr. Roger N. Carter (Institute of Chartered Accountants);
Mr. W. H. Behrens.

[* The forms are not reproduced.]

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## Society of Incorporated Accountants and Auditors.

### MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our last issue:—

ASSOCIATE TO FELLOW.

Durham, John, County Accountant of Cumberland, The Courts, Carlisle.

Maher, John, Secretary of the Exchequer and Audit Department of the Irish Free State, Government Buildings, Dublin.

ASSOCIATES.

Copus, Wilfrid Ernest, Clerk to Longdon-Griffiths & Co., 37, Boulevard Haussmann, Paris.

Crick, Freda Gladys, Clerk to F. C. Swallow, Milton House, Cowgate, Peterborough.

Legg, Alfred Cristian, Clerk to Gough, Son & Clare, 44, High Street, Brierley Hill, Staffs.

Lovell, Arthur Frederick (Lingard, Lovell & Hewitt), 5, South Street, Finsbury, London, E.C., Practising Accountant.

Penny, John Jackson, Clerk to Pickard Crosland & Co., 1, 2 & 5, Victoria Chambers, South Parade, Leeds.

Sharp, Victor Reginald, Clerk to W. F. A. Cooper, 68, Aldersgate Street, London, E.C.

# Foreign Trade.

A Lecture delivered before the Belfast and District Society by

Mr. HUGH MURPHY.

Mr. Murphy said: In determining which line I should follow to-night I have tried to bear in mind the accountant who, arriving at an export merchant's office, is confronted with various technical terms and conditions, most of which have very important meanings and any deviation from which may provide the purchaser with an excuse for cancelling the contract should he for any reason not wish to take up the goods. If I succeed in explaining clearly these terms and conditions to any of you not previously fully conversant with them I shall feel that something has been accomplished in the furthering of all our interests.

My endeavour will be to portray to you existing conditions as they are actually found in our present working day, and I have not tried to deal in detail with the economic statistics of the various countries because you can find these statistics if you want them in most of the economic publications, so many of which are being issued to-day.

I have left statistics alone because to my mind they do not really prove anything—so much depends on ulterior circumstances which have a bearing on the position—and also because I wish to give you as much useful practical information as possible.

At the outset I should like to say that if any of you present here to-night may think I have passed away too rapidly from any particular point, and will jot it down, I shall be very glad to take that point, or any points you may mention, and discuss them more fully later. So that you may from the beginning of my remarks be in harmony with my mind, I would like to explain that I am going to treat the question of "exchanges" first from the point of view of the exporter, passing through various markets of importance, and then from that we shall come home to London and Belfast, and in the second part of my remarks we shall consider the exchange operator's work. My reason for dealing with the subject in this manner is that after all the *raison d'etre* of exchange dealing is, or ought to be, the movement of merchandise, and I think it is only right that the very important export trade of this country should be given first place by us. I shall therefore ask you to accompany me on an imaginary voyage round some of the principal overseas centres, so that we may examine actually on the spot the conditions which exist there and the exchange facilities which are required.

Our first journey will be to Liverpool, where we board a liner for South America, and after everyone is settled down we are permitted to examine the contents of the liner's cargo. We find in it a miscellaneous assortment, but standing out predominantly we observe several large wooden cases, very squarely and securely made, well nailed together, and probably covered with sacking.

I will digress here for a moment to make a few remarks, which, although not especially relevant to this city because most of our leading exporters are very well aware of their importance, still they will be of interest to you in an advisory capacity.

### Packing of Goods.

Some fifteen years ago the United States of America were seized with a desire to secure a more important footing in foreign trade. They accordingly set up a bureau of manufacturers and instructed their consular representatives abroad to make reports on prevailing conditions in their districts. A predominant note in all these reports was the importance of properly packing the goods before despatch. In the words of Mr. A. H. Baldwin, who was the chief of the Bureau at that time, he says: "What is good packing for shipments to one country may be bad packing for another, and until exporters learn the many factors involved and endeavour to solve the problem of adequate packing for each shipment there will be criticism and complaint." Mr. Baldwin goes on to say: "Flagrant cases of defective packing, due to the ignorance by Americans of business methods abroad and to the dependence of exporters on their own judgment in such matters, have undoubtedly resulted in loss of foreign trade in many instances."

Now, even if I were sufficiently informed in this matter of packing to do so, I should not to-night have the time—nor would it be what you are here for—to go into the various details of how goods should be packed, so I shall content myself with merely making this allusion, and will only add that it is by no means uncommon for bankers who are engaged in foreign trade to be told that certain bills are unpaid because goods were damaged in transit or that a portion of the goods have been pilfered or have gone astray.

If any of you or your friends wish to be more fully informed as to how goods should be packed, and will communicate with me at any time, I shall be most willing to render to you or your friends any service in this connection of which we may be capable.

It should always be remembered that there are difficulties of transportation, such as surf boats and lighterage, animal transport and climatic conditions, to be dealt with.

It may not perhaps be out of place for me to make a suggestion on this point, and I am quite sure that my suggestion will be received in the same spirit of co-operation in which I make it, and that is that our local Ministry of Commerce, which has already done so much good work, could add to their present usefulness if they would compile and issue pamphlets dealing with the various conditions on the various foreign markets, stating the peculiarities and the difficulties that have to be contended with by exporters to those countries.

### Settlement of Bills Abroad.

Now to return to the boxes which we observed in the liner's hold. Let us look for a moment at their markings. We find consignments for, in the order of our travels, Rio de Janeiro, Buenos Aires, Santiago, Guayaquil, Havana and New York. Arriving at the first port of call—Rio—we observe that the agents of the shipping company immediately take frantic hold of the ship's manifest, and at once make out notices to the various consignees of what goods have arrived for their account. Let us follow one of these advices to Messrs. A, B & Co.

The senior partner, Mr. A, reads:

> The following goods have arrived per s.s. "Pedro":—
> Four cases marked respectively "S 26," "D 32," "J 19," "E 20."

He then turns up the mail, which has possibly arrived by the same steamer, or more probably by the previous mail steamer, and, examining certain invoices bearing the same trade marks, he finds that these cases represent, say, four bills of £250 each, which he is informed by the various shippers will be presented to him by the bank and which are drawn in the following terms:—

> At sight, payable at 90 days sight on London.
> 30 days sight, payable at sight on London.
> 120 days date, payable at 60 days sight on London.
> Sight, payable at rate for telegraphic transfers on London.

The first term of sight payable at 90 days sight will be, I am sure, obvious to most of you, but in case it may not I will explain that the draft on presentation to the drawee of the bill must be taken up by him on sight of same or, as is usually called here, "on demand," and in accordance with the condition as expressed on the bill the banker in Rio de Janeiro requests the drawee to provide the banker with a sufficient number of milréis to allow the banker to sell to him for account of the shipper of the goods a draft on London payable 90 days after sight on arrival of the return remittance at London.

The banker on whom the bill is drawn in London, when this return remittance is presented to him, accepts the draft, and the usance of that London acceptance thereupon begins to run. So the shipper on this side has sent a consignment of goods to Buenos Aires, the goods have been paid for immediately the draft is presented, and a remittance of sterling has been made from Rio de Janeiro to London, but the London banker does not pay this remittance at once. He takes 90 days before the bill is paid. To this term must be added the usual three days of grace, and therefore the home shipper actually does not receive his money until 93 days after the home remittance has been received here.

I will now demonstrate the other clauses on the blackboard. Usually bills drawn on Colombia, Ecuador, Nicaragua,

Salvador, Venezuela and Iquitos are payable by sight return drafts, and should be drawn accordingly.

Bills drawn on the Argentine, Bolivia, Brazil, Chili, Peru and Uruguay in other than the local currency are payable customarily by 90 days sight return drafts on Europe. They should not be drawn payable by sight return drafts unless a previous arrangement to that effect has been made with the drawee. (In the case of a bill payable by the customary 90 days sight return draft the drawee pays to the collecting bank a sum in local money which suffices to purchase a draft on London, Paris, &c., at 90 days sight for the amount of the bill. He would naturally have to pay considerably more for a sight return remittance. It is usually more advantageous for him to be drawn on in the first mentioned way, even if the interest for the corresponding three months is added to the invoice.)

After all these sterling transfers have been provided for through the banker in Rio de Janeiro, we may for a moment consider what is the banker's position. It is, briefly, that he has been a seller of four parcels of sterling, and is therefore short of sterling to the extent of £1,000.

It may well be that for exports from Rio de Janeiro of Brazilian coffee he has purchased from the coffee exporters sterling bills for that identical amount, in which case he would be square in his sterling position, but should this pleasing factor, from a banker's point of view, not have occurred he will require to go on the market in Rio de Janeiro and buy from another banker or exchange broker the amount of sterling to provide his cover.

Therefore you can see that the rate at which the banker in Rio de Janeiro sold the sterling to the importer of Belfast goods will require to be such that the banker can himself buy sterling from the inside market at a rate which will give him a slight profit. Otherwise there would be no profit whatever to the banker dealing in these sterling bills. This position is much the same everywhere, but in certain towns in South America there is a considerable amount of competition amongst bankers, and the importer, by calling up several banking houses, will endeavour to get the most favourable rate that he can. This endeavour to buy sterling as cheaply as possible sometimes brings the importer into touch with houses which are undesirable, and our agents are then confronted with a draft in sterling on London, in payment of the shipping documents to be delivered, which our agents may not think desirable to receive, and a very difficult position then arises as to what should be done. If he does not receive the bill he at once lays himself open to a complaint to be made by all parties interested that he has delayed the payment of the bill or, perhaps, caused the goods not to be taken up. If he does take the bill and it is for any reason whatever dishonoured on arrival here our agent leaves himself open to an action for damages on account of handling a draft which was subsequently dishonoured. This state of affairs causes us on this side to be very careful, so far as we can, in all cases to instruct our agents that they are only to accept approved bills on London in payment of bills which we send to them for collection.

We will now pass on to the other towns of South America. Buenos Aires is on the same basis, so far as we are concerned, as Rio de Janeiro; also Montevideo, except that of course in the Argentine and Uruguay the dollar is the standard coin. The quotation for the Argentine gold dollar is about 42 pence, but in actual currency it is the paper dollar which is used, and the paper dollar stands to the gold dollar in the ratio of 100 to 44, or 44 per cent. We pass over to Santiago, where the peso is current, and we find there that the principal industry in Chili is that of the export of nitrate. This industry is a growing one, and in conjunction with the improved railway transport, there is not much doubt but that Chilian business is likely to increase. The conditions in Chili are again similar, so far as actual exchange transactions are concerned, to those which I have already described as prevailing in Rio de Janeiro.

After leaving Santiago we arrive in Guayaquil. On arrival here at the capital of Ecuador we remember that we have a mission to fulfil. One of our friends in Belfast has shipped to Guayaquil some three years ago certain goods for which to this day he has received no money. What do we find is the position? Is it that the drawee cannot pay? No; he is probably perfectly solvent. Is it that he does not wish to pay? No; for he has already sold the goods at a good profit. It is simply this: that after the goods were sold and he applied to the exchange commission in Ecuador, he was informed that he could not at present be permitted to export sterling. He thereupon deposited Ecuadorian sucres with the bank in Guayaquil, and they have remained there pending permission of the exchange committee to realise them in exchange for sterling. This state of affairs was originally caused by the failure of the cocoa crop in Ecuador. It is only possible for the Ecuadorian Government or merchants in Ecuador to draw on foreign countries when there is already sterling lying to their credit in those countries, and therefore when the principal export from Ecuador failed it will be apparent to you that the sterling funds abroad were correspondingly depleted.

The Government, to deal with this difficult position, set up an exchange committee and made the following rules:—

When an exporter in Ecuador ships his product he lodges with the committee his draft on the consignee, which is drawn in currency of the foreign country. He also lodges with the draft relative invoices showing the full value of the goods. The committee then pays to the shipper the equivalent of his drafts in Ecuadorian currency at the exchange rates which are fixed by the committee. The foreign currencies which are in this way placed at the disposal of the committee are disposed of as follows:—

(1) To pay for imports of first necessity.

(2) To pay for imports of industrial and agricultural machinery.

(3) To pay for remittances to Ecuadorian families living abroad, and also insurance premiums.

(4) To pay for imports of goods not considered to be of first necessity.

Payments under numbers (3) and (4) are subjected by the committee to a surcharge of 25 cents. Any currencies which then remain at the disposal of the committee are then disposed of to the extent of 30 per cent. in taking up bills relating to shipments which arrived in Ecuador prior to June 30th, 1922, under certain conditions, and these bills are taken up in strict chronological order. It is therefore under this last clause that we hope to obtain, at some time or other, the payment for our friends in Belfast, and I may say that when these conditions were first imposed we did get a considerable amount of overdue bills paid, but since that time I am afraid that most of the funds at the disposal of the committee have been utilised under the first four headings, and it is only very occasionally we get a remittance in respect of an old shipment.

We now leave Ecuador, and arrive in Cuba—that land in which so many graves have been dug for the remains of contracts made with our textile manufacturers, not only in Belfast but also in England and Scotland. This adverse position was caused by the failure of the sugar crop in Cuba about three to four years ago, when exports fell from about $290 per head of population to about $131 per head. A considerable shortage of funds arose in Cuba as a result of the failure of the harvest, and consequently as the purchasing power of the inhabitants of Cuba decreased so the market value of stocks held out there also fell, and a wholesale cancellation of orders took place, to the detriment of not a few of our Belfast shipping houses. This condition, however, is now righting itself, and although the old debts have never been, and probably never will be, entirely cleared off, still there is a real improvement, and firms in Cuba have rehabilitated their position to such an extent that confidence is again being restored and orders are being placed. The terms, however, are mostly for cash payment or for a portion in cash and the remainder at 30 days after sight. I need hardly add that even yet, if a firm desires to open up trade with Cuba, it is very necessary to exercise the greatest caution before despatching the goods.

Before leaving the sub-Continent of South America I should like to state that our experience has been during the past few years that orders can be very easily received from all sorts and conditions of houses in Central America, particularly from such countries as San Salvador, Costa Rica, Honduras and the other separate republics in that district, but just as it is easy to receive orders and to despatch goods it is, in the inverse ratio, difficult to receive payment. I do not say that there are not many perfectly reliable and solvent houses in Central America, but I do say that before sending out goods

every care should be taken to ascertain that the goods are being sent to one of those houses. In that district there are many of the peddling type who will place an order for goods, having a small shop or office in a certain town, and whose object is, on receipt of these goods, to take them away, possibly on their back, and sell at the surrounding outside districts. It is therefore very difficult to get in touch with these people who have accepted the bills at maturity, and indeed if sales have not been successful it is very much more difficult.

Passing on up to New York and the whole of Northern America, including Canada, it is sufficient for me to briefly state that the people in North America almost invariably ask that British houses should quote to them and invoice their goods to them in sterling. This does not apply to houses on this side having their own American houses, although indeed it is the rule for the Belfast house to send to its American house invoices expressed in sterling, leaving it to the American house to sell in dollars and credit the Belfast house in sterling. This position means that exporters here have to consider the basis of exchange on which the American buyers must make their calculations in order to purchase the sterling for credit of, or remittance to, this side. What is the position at present? Well, in the ordinary way British traders wish to receive for a pound's worth of goods £1. The prices in our home market do not fluctuate with the movement of the dollar, and what was the price for a certain article last month is still round about the price to-day.

I am now speaking broadly for the purpose of illustration. Last month an American buyer would have had to pay, say, $4.40 for his £; to-day he has only to pay $4.25, and so his goods from this country would be roughly 3½ per cent. cheaper, and he is therefore in a position to sell more British goods on account of their added cheapness.

This will explain to you how important the rate of exchange in New York or Canada is to us. As the exchange becomes more favourable to America the more goods can the American buy, and therefore it means that an unfavourable exchange to this country usually means more goods being shipped from this country. I hope to say something more later on regarding the dollar exchange.

I am sorry that the time at our disposal to-night will not permit us to protract our voyage to the other principal markets of the world and to visit South Africa, Australia, the Madeira and Canary Islands, India, Japan and the Malayan Archipelago. In all these markets we have a considerable amount of business, but to deal with the exchange conditions on the most important centres let us take first of all the Far East. A foreign exchange operator would require to be very well versed indeed could he tell you of all the complicated conditions and currencies which exist in China and Japan. Fortunately for him he does not require to do so, because the position out there is in the hands of a few large banking organisations who are able to control shipping affairs and who are also able to control the exchanges. It may be that the bills will be paid in Shanghai taels, Hong-Kong dollars or Japanese yen, but so far as the shipper from this country is concerned he will be paid in sterling. Consequently from this country all shipments are made in terms of sterling.

The clause in the bills of exchange covering the shipments being designed to give to the shipper the full value of his invoice, together with interest, during the time the bill is outstanding, at the rate prevailing in the East. This rate is fixed by the banking organisations to which I have referred, and is usually higher than that which prevails here. At present it is 7 per cent., so that even with our overdraft rate at 6 per cent. the exporter who is working on borrowed capital is not at a loss during the waiting period until his money comes home. The same conditions apply to India, where practically the same banking organisations are in control. For your information I should say that the clause on the bill of exchange reads something like this: Payable at the rate of the collecting bank for sight drafts on London together with interest at the rate of 7 per cent. from date hereof until approximate due date of arrival of proceeds in London.

In Australia and New Zealand there are not the same complications, as the currency in Australasia is also sterling. Nevertheless there are exchange conditions. Roughly, the British pound is the same as the Australasian pound if there is as much sterling to credit of Australia in London as there is in Australia to credit of London. This is, however, very seldom the case, as it would be purely a coincidence if the amount of exports visible and invisible from London to Australia were exactly of the same value as the amount of Australian exports to London. The wool clip in Australia is a big factor in settling, or shall we say unsettling, these balances, and most of you will remember a time inside the past few years when our Government stopped buying Australian wool without having given sufficient time to provide for the depletion of funds in London, which would as a consequence ensue. At that time it was very difficult indeed to get money in London against shipments to Australia, and I am glad to say that the local banks in this country came to the rescue of our exporters and enabled them to carry on.

I believe that the tendency is growing for banks outside the Australian group to take up the financing of shipments to Australia, and my experience has been that our agents in Australia have always been very willing to help in this development. There are many ways in which Australian bills may be drawn. *It is always a matter of pre-arrangement with the shipper, and I wish to emphasise here that all shipments, to no matter where, must be drawn in exactly the manner which has previously been arranged between the seller and the buyer, for which there should always be a signed contract setting out those terms.*

The clauses which may be utilised on Australian bills are as follows:—

(1) If charges for exchanges and other expenses are to be borne by the shipper.

(2) If exchange and stamp only are to be borne by the buyer.

(3) If exchange, stamp and commission charges are to be borne by the buyer.

In the first case, there would be no special clause required. In the second case, the clause would be, after the words "value received," "exchange as per endorsement." The third clause would be "exchange as per endorsement, together with stamps and collecting charges."

The position in South Africa is somewhat analagous to the position in Australia, but the custom is not so well recognised in South Africa that the drawee should bear the exchange charges, and as a matter of practice it is more usual that these exchange charges should be embodied either in the price of the goods or in the statement of account which accompanies the documents, and the bill is therefore drawn for an inclusive amount of sterling, all charges to be debited to the shipper.

In West Africa and East Africa the position is more like that of India, where exchange is collected at the rate prevailing in the Far East.

In North Africa, and especially Egypt, where we have considerable trade, the position is simply that the bill is collected at the rate of the collecting banker for selling sight drafts on London, which means that the collecting banker presents the bill to the drawee, having written thereon the amount of francs or Egyptian pounds or piastres which he requires to enable him to remit the money home to London in full. To put this in another way, the banker here is selling to the drawee a sterling draft at the rate prevailing for such sterling drafts.

I do not wish to speak about France or Germany, or indeed Holland or the Scandinavian countries, at present. Those countries at one time provided a splendid market for British goods, but now, in consequence of adverse exchanges, they find it extremely difficult to pay for our goods, and they find that they can get similar goods cheaper from Continental centres, but, generally speaking, it was the old-fashioned method to despatch goods to those countries expressed in sterling, and I have no doubt that that method will again prevail, but concerning that method I hope to say something more under the heading of "C.I.F. Contracts."

### C.I.F. Quotations.

There has been a system in this country which would appear to base itself on a firm conviction that there is one coin, and one coin only, in this world, that coin being called the British sovereign.

It has given me many despairing feelings when I have seen requests from abroad asking for prices "c.i.f. port of destination," and have also seen the replies quoting "f.o.b. Liverpool." I remember very distinctly an instance of this,

where the inquiry was given to two houses, one of them replied as requested, and the other in the old way, "f.o.b.," and although at the current rate of exchange the c.i.f. price was considerably dearer to the purchaser than the f.o.b. price, it was the former house which got the order. There seems to me to be no doubt that the merchant abroad likes his goods delivered to him at his door at an inclusive price, so that he can at once start selling his goods for future delivery at a price showing him a profit, without his having to take into consideration expenses for freight, insurance duties, cartage and several other incidental charges in transit.

The greatest difficulty that has arisen recently in dealing with this question is the fluctuating exchange in certain countries. A merchant might quote a c.i.f. price to Bordeaux in francs, but when paid in this currency, if he had not previously covered his exchange by selling the francs to his banker to be delivered to his banker when the merchant's bills are paid, he might suffer a heavy loss in consequence of the depreciation of the franc, which set in after he had quoted his price and despatched his goods. I am glad to say, however, that many merchants are alive to the possibilities of fixing their prices in this way, even under existing conditions, and after the contract has been signed they immediately go to their banker and sell the currency which they are to receive at a future date somewhere round about the rate at which they converted their sterling into francs when calculating their c.i.f. price.

When making the allusion earlier to-night to our Ministry of Commerce, I had also in mind that in addition to giving packing information they could also give tables of duties and other charges applicable to the various foreign ports, and this is exactly what the Bureau of Manufacturers in America did. It was therefore possible for a prospective exporter in America to apply for and obtain without delay all the information which he required in making out his c.i.f. price.

### Foreign Exchange.

The present chaotic conditions, as a result of which the exchanges of some of the principal countries of the world have been lowered to their present depreciated level, often through causes not in the control of the respective governments, will only be brought back to normality by a slow and gradual resumption of international trading conditions. The great war caused a disruption in old world conditions, created many new nations, increasing very often frictions and in some cases erecting new tariff walls or builded still higher those already in existence. Everything that tends towards selfishness on the part of any one nation or nations is to be regarded as bad from a commercial point of view. What is wanted is freer communications, so that the surplus of one country can be sent to a market in another country. This, of course, is only possible where there is reciprocal dealing.

### France.

It is difficult to consider any one country in Europe without also considering its relation to the other countries, but to take France as an example, the French exchange is at present the plaything of the speculative market. Should a rumour be circulated that a conference has been arranged to discuss a method of settlement with Germany the speculators immediately take advantage of the feelings of the people, not only in the French market but also in the principal exchange markets of the world. The speculators consider that during the time which must elapse before the conference is to take place they may become "bears." They consequently sell francs at all the centres, and on the continued trend of depreciation which results other people who have to sell also, or who may be legitimate holders of francs but become afraid to hold any longer, also sell, and the consequence is that a day or two before the conference takes place francs are very cheap. Then the speculators who have been selling at once change their tactics and buy in to cover their short positions, and usually by purchasing a further lot become "bulls." Immediately the market changes—only buyers are appearing, or at any rate predominate. The obvious reason advanced for the improved value of the franc is that something is probably being or will be done at the conference, and I am afraid that it is mostly the innocent trader who is not aware of the actual cause of the purchasing being started gets caught short.

This state of affairs, of course, makes business very difficult, and it is not much wonder that the French merchant fears to place an order on a foreign market for goods. He may have to pay for the sterling, which at the time he places his order is about, say, 75 francs to the £, as much as 90 or even 100 francs before he is through, and consequently the profit which he thought he saw in his goods may have disappeared before he gets a chance to dispose of them.

Although prices will usually follow the depreciation of a country's currency, still, as in the case of wages, they do not follow nearly as quickly as the exchange moves. I shall speak of how the merchant ought to protect himself under these conditions later. It is generally recognised that there is a well organised syndicate of expert speculators operating in this way on the exchange market, taking advantage, not only of the French exchange, but of sterling and dollars or any other currency which is liable to sentimental dealings owing to political or other reasons. These circumstances caused the French Minister of Finance, M. Lasteyrie, recently to announce that he proposed to take measures to stop speculative dealings in exchange, but this announcement at the time only caused greater demoralisation on the markets than before, for during the following week end, the announcement being on a Friday, the rate rose by four points, and in the following week by three points, *i.e.*, the value of the franc fell. Since that time, however, on account of the railway strike, the British Labour Government coming into power, and confidence growing in the French proposals, francs have considerably improved in value.

It is a curious feature in exchange, particularly on the New York and French markets, that there is always a determined rush in one direction or another following the lead given by any particular large deal or tendency in a preceding market. The fact of the world being round, and that therefore markets are operating in different places at various times, assists in keeping this circle going, as one market is usually slightly in advance of another, and with the inter-telephonic communication which now exists the state of affairs in Amsterdam is quickly passed on to Brussels and Paris, thence to London, and later in the day to New York.

It may interest you to know that we in Belfast are sometimes able to deal in Brussels or Paris, and at times we have been able to take advantage of a temporary disparity in the rates, so that we are sometimes able to obtain a better rate for foreign currency than is quoted in London. This connection with the Continent, however, is not direct from Belfast, but through our London brokers, who operate largely on the Continent and who can sometimes switch us through when we happen to come on at the same time as the Continental market.

Regarding the future of the franc—which I suppose is the most important question in the exchange world to-day—I am afraid I cannot venture to prophesy, but merely as a means to open up a line of thought it can do no harm to remember that during the past five years France has been endeavouring to rehabilitate herself in the world of commerce. To do this it was necessary, first of all, to reconstruct its devastated regions. This was done by large internal and external loans, the issuing of Treasury bonds, obtaining credits and paying cash for what she could not get otherwise. The result of this reconstruction, mostly on credit, was that a great part of the French debt was not immediately discernible in her position, the more so as France did not include in her ordinary or domestic budget loans which she contracted for war damages, preferring to debit such loans to her extraordinary, or war, budget, which was to be paid off by German reparations. A large portion of these loans were negotiated through Brussels, payments requiring to be made from Brussels to Paris, and in addition to the fact that Belgium was also reconstructing, but paying her way as she went along, and so creating a sale of Belgian francs for the purchase of sterling, dollars, &c. This accounts, in some measure, for the fact of the Belgian exchange being at a discount, as compared with the French exchange. Should the view of Paris that the war budget will be paid by reparations be not correct, then it is generally thought that the French franc will fall to a discount, as compared with the Brussels franc. On the other hand, if the French policy is justified by events, then the exchanges should become level, and in the meantime the French merchant will have been able to purchase his foreign commodities cheaper than the Belgian merchant.

At present the French Prime Minister, M. Poincare, has succeeded in raising the taxes in France. This is a step in the right direction, as it means the people themselves are supporting the nation. M. Poincare also proposes to stop speculative dealings and to combine the two budgets. His proposals are all sound, and will receive the support of the financial world. Should these proposals materialise in a greater revenue, the doubt which has arisen in the minds of French investors and capitalists may be cleared away, and the selling of French for British and American securities which has helped very much recently to depreciate the franc may be stopped, and as a consequence it is possible that the franc may improve in value during the next six months. This view is further supported by the well-established factor in the market which occurs every year that about this time European purchasing of American products ceases, and the demand for the dollar as a consequence falls off.

The dollar, moving in favour of Europe has a corresponding effect on the value of sterling and francs.

It has been said that the real cause of French instability is the unhealthy state of her finances—this is granted, but I think it is only fair to say that the extreme fluctuations which have occurred are the result of speculative dealings which are only possible because of the unhealthy state of her financial position. When health is restored, the opportunities of the speculator should greatly disappear.

It is a pity that the financial policy of a country is so much in the power of the Financial Minister, and his budget is a secret unto himself until actual disclosure, because this means that often the budget is more the result of the desires of the people, than the considered and well advised policy of the financiers and business leaders who are best able to give an opinion.

With regard to the actual position of France, it is stated that her external war debt amounts to 36 milliards gold francs. This would amount to about £1,500,000,000 sterling. The debt due to her, including Russia and the full amount fixed at the Genoa Conference as due by Germany, would be 77 milliards of gold francs, but since that time Russia has been eliminated and is now generally considered a bad debt. There has been some rapprochement between Paris and Brussels, but should the figures given by Sir George Paish last week in an address in Glasgow be approximately correct, it would be possible to obtain from Germany for France about £1,000,000,000 sterling, £200,000 of which would be cash down and the remainder in bonds of the League of Nations. This, of course, is only hypothetical, but if anything like that position were achieved, then France might easily resume a very healthy position among the nations. At the moment it is thought that it might be possible to stabilise the French exchange at about 90 francs to the £, so that with a fixed rate commerce might be facilitated, and leaving that rate to be adjusted with the upward movement of the dollar which usually occurs in the spring.

Before leaving France, I may be allowed to give you a few figures which are interesting. For the first ten months of 1923, indirect taxes yielded 14,236,000,000 francs, as compared with 12,569,000,000 francs in the previous year. Direct taxes yielded 3,027,000,000 francs, as compared with 2,196,000,000 francs last year. The increased rate of tax now announced will add considerably to these figures, and it is hoped will meet the increased expenditure shown by the unification of the two budgets. With regard to unemployment, the number of unemployed in France on November 22nd last totalled 434, on October 18th, the previous month, the number was 1,280. You will, therefore, see that at present unemployment is practically non-existent in France.

During the month of October, the value of imports totalled 3,069,000,000 francs, exports were 2,813,000,000 francs, so that on an economic basis the balance of trade would be slightly against France. It is said that, taking the visible imports and exports only, there was an unfavourable balance for the month of November. On the other hand, in May exports exceeded imports by a small margin. On the volume of trade for 1923, the imports were 7 per cent. increased, whereas the exports increased by 8 per cent. You will see, therefore, that France in its domestic budget is maintaining its position very well.

### United States of America.

With regard to America, it has been said that perhaps she could have done more in helping to assist the weakened countries in Europe to get back to their feet again. This may be so, but it should not be forgotten that America has not kept herself aloof from Europe during the last five years. She has advanced about $11,000,000,000 in credits, relief work, private loans, &c. (including the amount of expenditure by American tourists), and the general feeling is that once the countries in Europe can find some plan to help themselves, and show that this plan will work, then America will be willing to help in a further material manner.

During the three years ending 1922 New York exchange went against this country in the fall of the year, gradually reacting to a higher point than in the preceding year in the following spring or early summer. This movement of dollar appreciation in the fall and depreciation in the spring is regarded by foreign exchange dealers and economists as a normal movement between America and Europe under present conditions. We have to pay for grain, cotton, tobacco and other outputs of the American harvest. Payments are usually settled round about the turn of the year, and the following March sees a drain beginning upon Europe for the balances which are at credit for account of New York in sterling or francs. In addition to this America generally has some purchases to make here for agricultural implements in the spring, and further, the tourist traffic is just commencing. All these factors tend to bring up the dollar in rate or the European exchanges in value. It is a strange feature that although there is a constant buying of dollars for cotton and a very large market for the purchase or sale of cotton futures, there is not much dealing in the forward dollar market to cover these cotton committments. Apparently the dollar is taken into consideration in the price of the cotton for future delivery, and no attempt is made to control the price of the cotton by the forward purchase of dollars, the usual custom for the cotton shipper being to draw in sterling on London for the amount, and at the time, of his shipments. If one could see with certainty what the future of the American exchange would be in the spring of each year, and borrow dollars in New York, either under dollar acceptance credits, or by the purchase of spot dollars and the simultaneous sale of forward dollars, leaving the final settlement for a later date, and so obtain funds to pay for the imports from America in the fall of the year, this would mean that our American foodstuffs, cotton and tobacco could be sold here much cheaper than at present.

### The "Forward" Market.

I have referred from time to time to forward exchange. This has become, as a result of the great uncertainties of exchange, a very important method of dealing Forward exchange means the purchase or sale of foreign currency for delivery at some future date. When the contract is made the rate of exchange at which the currency will be delivered is fixed, but actual payment for the currency is not to be until delivery is effected. The forward operations are either for delivery at a fixed date or for delivery over a period, but not later than a certain date. The latter method is called "with option" contract, and under it the merchant is allowed to take his currency under his contract as and when he requires it up to that final date when a settlement for the balance not taken up is effected. Usually the fixed date contract allows of a better rate to the merchant, as the banker, being able to depend upon the currency, or the sterling being delivered to him at a fixed certain date, can employ his funds usefully in the meantime.

The "with option" contract, however, is the form which our local merchants find most useful, as it is generally required for delivery of yarns and flax which may come through in part shipments at any time during the period for which he has allowed. To explain a few of the most usual transactions in forward dealing which take place, let us take a yarn broker who is purchasing a consignment of yarns from Courtrai which at the price in francs quoted by the Courtrai merchant are cheap, based on the current rate of exchange at the time of the purchase. Suppose the Belfast broker does not cover his purchase of yarns by at once buying francs, it is possible that before his yarns arrive the exchange may have appreciated by, say, 10 francs. If the exchange at the time

of purchase of the francs were 100 francs, and at the time he is to pay it is quoted at 90 francs, it will be obvious to you that he is paying 10 per cent. more than he need have if he had bought his francs at the time of the original transaction. This would not matter so much if the Belfast broker had not sold his yarns in sterling prior to their arrival, but the strong probability is that when he originally purchased the yarns he also sold them to a weaver at a sterling price based on the exchange of 100, and if he only gets 90 francs for his pound he actually makes a sterling loss of 10 per cent. To prevent such a loss the broker, when he purchases his yarn, also purchases his francs under forward contract, and he is therefore secure so far as francs are concerned. When the yarn comes through he requests his banker to pay the amount in francs out of his forward contract, and so the profit which he has been able to make on the sale of the yarns in sterling is not lessened by any loss which might have been made in exchange.

Another example of forward dealing is that suppose a Toronto lumber exporter sells a quantity of lumber to a timber merchant on this side the quotation is sometimes given in either dollars or sterling. At one time it was the custom here for the Belfast timber merchant to agree to the price in dollars, because that price was usually about 3 per cent. cheaper than the sterling price, the Toronto merchant being anxious that he should be paid in dollars and so be saved any possible chance of a loss in exchange. Now, however, that the forward market in Toronto and Montreal has developed, I think it is more common for the American shipper to be paid by the Belfast importer in sterling, and the American shipper covers himself by selling to his banker the forward sterling. In the Finnish lumber trade, however, the former method still prevails.

Forward rates vary just as "spot" rates vary. Sometimes the forward market is at a premium and other times it is at a discount as compared with the "spot" quotation, but this difference in the rate, as a rule, does not exceed 2 per cent. per annum. To give you an idea of how to calculate the difference between the "spot" and "forward" quotations let us suppose that "spot" Paris is 90 francs to the £, and that the forward mark is 10 points per month at a discount. Then for each month you buy "forward" you get 90.10 for one month, 90.20 for two months, and so on. For each month you get 10 centimes more, or for twelve months you get 1.20 franc more for each £, or for one year you get 120 francs more for each £100. Taking 120 francs at the exchange of 90, this is equal to £1 6s. 8d., and so you will see you get £1 6s. 8d. per cent. per annum, or 1⅓ per cent. better when buying forward when forward exchange is at a discount of 10 centimes per month. In calculating this benefit, however, it is necessary to take into consideration whether the sterling funds which will ultimately pay for the francs are, during the period under consideration, put out on an interest earning basis; if not, it would be as well to purchase spot francs, as during the time of waiting the francs would be earning interest in France.

If in the course of this lecture I have said anything which may lead you to think that in my opinion exchange is going one way or another, I should like to relate to you a short episode which occurred during the time when we were greatly interested in the trend of the dollar exchange. I had occasion to visit one who is rightly regarded as among the most eminent authorities in the exchange world, and especially the dollar exchange world in London. I asked him what he thought the dollar exchange would do during the next few months. His reply was, "After you have compiled all the obtainable information regarding the imports and the exports, the political conditions and industrial conditions, and from that compilation you have made certain deductions and have come to an opinion as to what should take place in the movement of the dollar, you will probably be right if you go and do the direct opposite." This shows to you how difficult it is for anyone to say what the exchanges will do, and all I shall say, in conclusion, is that when a merchant can see a profit on his transactions at the prevailing exchange he should at once take it, and not leave himself open to the vagaries of the market, which so often are contrary.

## Changes and Removals.

Mr. James Lake, F.S.A.A., has removed from 20, Wind Street, to Gower Chambers, Gower Street, Swansea.

Messrs. Lomax, Sons & Beddall, Incorporated Accountants, announce that the partnership formerly existing between Mr. C. M. Lomax, F.S.A.A., and Mr. F. E. Clements, F.S.A.A., has been renewed, and the style of the firm is now Lomax, Clements, Sons & Beddall. The business will be conducted from Greenwich House, Newgate Street, London, E.C.

Mr. William Morris, Incorporated Accountant, of 37, Milk Street, Cheapside, London, E.C., announces that he is admitting into partnership his son, Mr. Sidney Thomas Morris, Incorporated Accountant, who served articles with him, and was for some years engaged by his late partnership. The practice will be carried on under the name of William Morris and Sons, at the above address.

Mr. Walter Oldfield, Incorporated Accountant, has removed to Alliance Chambers, Horsefair Street, Leicester.

Mr. F. L. Rouse, A.S.A.A., announces that he has commenced to practise at 17, Green Street, Leicester Square, London, W.C., under the style of F. L. Rouse & Co.

Messrs. T. N. Steel & Co., Incorporated Accountants, announce a change of address from Vance's Chambers to Union Bank Chambers, Market Place, Huddersfield.

Messrs. J. Cradock Walker & McFadzean announce that they have removed from West George Street to Lion Chambers, 170, Hope Street, Glasgow.

Messrs. W. A. Wilkinson & Son, of 27, Scale Lane, Hull, announce that they have admitted into partnership Mr. E. C. Mallett, Chartered Accountant. The name of the firm will remain as heretofore.

## INCORPORATED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

The model appeals to the Commissioners of Income Tax which constituted the proceedings at a meeting of the Incorporated Accountants' Students' Society of London last month drew a large audience and were very successful. Two cases were put forward, one being a claim under Rule 11 of Cases 1 and 2 of Schedule D for reduction of assessment to the profits of the year of assessment on account, mainly, of the payment of directors' fees consequent upon the formation of a business into a limited company. The other was an appeal by an agent acting for a foreign principal against assessments made upon him for profits made in this country. The proceedings were well conducted and created great interest, but there was a feeling at the end of the meeting that it would have been an advantage if there had been more time available for discussion after the conclusion of the formal proceedings. Another evening is, we understand, being devoted to this purpose.

## Professional Appointment.

Mr. Albert Edward Bell, A.S.A.A., has been appointed Borough Accountant of Southend-on-Sea, in succession to the late Mr. C. R. Tweedale.

## "PRO BONO PUBLICO."

The following circular letter was received unsolicited by the secretary of a company which has recently been registered. We have no hesitation in giving it publicity, as the Federation claims to function in the public interest:—

**The Federation of Debenture Holders**
PRO BONO PUBLICO.

Confidential. *General Secretary*:—Robert Atkinson,
41, Bedford Row,
London, W.C. 1.

Dear Sirs,

In commencing your new life as a Limited Company we present our respectful compliments to you. You are not to know in how many ways we may be useful to you. Commence by allowing us to arrange about your Auditors for you. You cannot be better advised.

Yours faithfully,
(*Signed*) ROBERT ATKINSON.

Messrs. ——— Limited.

1.—Do not be the Slave of anyone.

2.—Do not be the Slave of anything.

3.—Follow progressive ideas.

# Reviews.

**Income Tax in the British Dominions.** *London: H.M. Stationery Office, Imperial House, Kingsway, W.C. (150 pp. Price 1s. net.)*

This is Supplement No. 1 to the publication under the same title, which was reviewed in our January issue. It contains additions and amendments to the digest of the income tax laws of the British Dominions consequent on the receipt of information since the original volume went to press. The Supplement contains further information with regard to many of the Dominions and Dependencies, the first part being in the form of additional pages to the book and the second a series of additions and corrections intended to be incorporated in the text of the book.

**Organisation and Administration of the Tramways Department.** *By S. B. N. Marsh, Accountant to the Birmingham Corporation Tramways. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (164 pp. Price 6s. net.)*

To those who are interested in tramways finance this book will be found very valuable, giving as it does a full review of the working of the tramways system, supplemented by many specimen forms and rulings of the books and accounts required in carrying out the accounting system. It is evident that the author is well acquainted with his subject, and also that he has spared no pains in making the book complete in every way.

**Pupil to Practitioner.** *By Cyril H. Temple, F.S.A.A. London: E. Marlborough & Co., Limited, 51, Old Bailey, E.C. (84 pp.)*

This is a philosophical discourse concerning the accountancy profession, the object of the book being to give some useful advice to those now qualifying and to those who, having already qualified, are commencing practice on their own account. The book is divided into three parts, the first dealing with the period of articles, the second the period of service, and the third the stage when public practice is reached. The third part is divided into several sections, including the Commencement of Practice, the Treatment of Clients, the Relationship with the Inland Revenue, &c. Some useful advice is tendered which is worthy of perusal by the young accountant, whichever stage of his professional career he may have reached.

**The Balance Sheet: Its Preparation, Content and Interpretation.** *By Charles B. Couchman, C.P.A. New York: The Journal of Accountancy, Incorporated.*

This is a book which will be studied with advantage by anyone in this country who desires to acquire a knowledge of the working of accounts on the American system. The main items in the balance-sheet are fully reviewed, and the system of dealing with them treated at some length. The qualifications of the author are vouched for by the President of the American Institute of Accountants, who writes an introduction to the book, and its contents may therefore be regarded as reliable.

# Correspondence.

## TAXATION OF UNDISTRIBUTED PROFITS.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—It will be of interest to your readers to know that one of the contentions of the Revenue as to the effect of sect. 21 of the Finance Act, 1922, is that if it is admitted by the appellant, or the Commissioners rule that a company could have reasonably declared a dividend higher than the one actually declared, then the effect is to bring the whole of the undistributed profits for the year in question into the super tax net. This contention was raised before the Special Commissioners at Birmingham on March 10th, in a case in which I was concerned, and they decided in favour of the Crown. I was at the outset, in answer to a question by me, courteously informed by the Commissioners that this was a ruling by Special Commissioners in Town a few weeks ago when eminent Counsel were engaged for the appellant.

To make the point clear, supposing that the profits available were £10,000 for the year and it is found or admitted that £3,000 of this might, having regard to the requirements of the company, have been distributed in dividends, and that £7,000 should properly have been retained in hand, then if £3,000 has not in fact been so distributed the Commissioners have no discretion but *must* direct that the whole £10,000 be treated as distributable in the form of dividends and so come within the scope of the section.

The Revenue contend that the intention of the Legislature was to place the small private companies referred to in the section on the same footing as individuals.

Yours faithfully,
S. HOSGOOD.

# Obituary.

## ELIJAH WATT SELLS.

Deep regret will be felt on both sides of the Atlantic when his many friends realise that Elijah W. Sells passed away on the evening of March 19th. He was the senior partner in the firm of Haskins & Sells, Certified Public Accountants, of New York, Chicago and other American cities, with branches in London and Paris. Elijah Sells possessed a charming personality, and with his wife, who predeceased him, dispensed open-hearted hospitality to British visitors to America, especially those belonging to the accountancy profession. His business ramifications were world-wide, but he never seemed too busy to greet a friend and to be interested in his friend's doings. Such men are not easily spared; to those who cared for them they seem to be irreplaceable in the scheme of things.

## FREDERICK GÉRARD VAN DE LINDE.

The death from double pneumonia, at the early age of 46, of Mr. F. G. Van de Linde, F.C.A., has caused much regret in the City of London. Mr. Van de Linde was particularly well known in insurance circles, and his firm acted as auditors to the Corporation of Lloyds'. He had recently been elected a member of the Council of the Institute, having previously acted as one of the auditors.

# Scottish Notes.

(FROM OUR CORRESPONDENT.)

### The late Mr. Wm. McIntosh, J.P., F.S.A.A.

We regret to record the death of Mr. William McIntosh, J.P., F.S.A.A., ex-Provost of Rothesay, which took place in Rothesay, on the 12th ult. Mr. McIntosh, who carried on business in Glasgow and Rothesay, was a well-known and highly respected member of the profession in Scotland. He was assessor for the County of Bute, and held many public appointments. In 1899 he succeeded the late Marquis of Bute as Provost of Rothesay, and was an active member of the Convention of Royal Burghs. For over twenty years he was a member of the Council of the Scottish Branch and took a keen interest in all matters relating to the Society in Scotland. A man of keen musical and literary tastes, death came unexpectedly at the age of 68, and his funeral, attended by the Provost, magistrates, councillors and representatives of many public bodies in Rothesay and from other parts of the West of Scotland, testified to the high esteem in which Mr. McIntosh was held.

### How Reformers are Made.

In a lecture on "Income Tax," given last month to the members of the Association of Book-keepers in Scotland, Mr. J. Cradock Walker, Incorporated Accountant, Glasgow, said that every time a taxpayer received a demand for payment he became a keen reformer of the law relating to income tax, and his zeal increased in proportion to the size of the demand. Mr. Walker drew attention to a section of the Act which, he said, was not generally known, and which luckily was very rarely used. Under this particular section the General Commissioners, in the case of a person who refused or neglected to pay the tax charged upon him within ten days after the demand, and where no sufficient distress could be found whereby the sum might be levied, could, by warrant under their hands, commit a taxpayer to prison, there to be kept without bail until payment be made or security given.

### Unemployed Insurance Question.

Judgment was given on February 24th by Lord Constable, in an action by the Lord Advocate, as representing the Ministry of Labour, against the Ayr District Board of Control and the members thereof for recovery of sums due under the Unemployment Insurance Acts in respect of certain employees at the District Asylum of Ayr, owned and administered by the defenders. The question sought to be raised was whether their employees fell within one of the statutory exceptions, and were so exempted from contributions. Lord Constable said the persons in respect of whom contributions were now claimed were employees with less than three years service, and for whom no certificate of exemption was granted by the Minister of Labour. They consisted of nurses, attendants and artisans. The defence was that, under the implied terms of their contracts of service, the employees in question were not subject to dismissal except for misconduct, negligence or unfitness; that it was not therefore necessary that they should have completed three years service in order to bring them within the employments excepted in Part II of the Schedule, and that the Minister was not warranted in withholding a certificate in respect of employees of less than three years service. The pursuer pleaded in answer (1) that no such question could be raised in this process, because the Minister's decision was not appealed in the manner provided by the statute, and was final, and (2) that in any case the defenders' averments to the effect that the contracts of service were *ad vitam aut culpam* were not relevant. After an examination of the provisions of the statute, his Lordship said he could not entertain in this action the question which the defenders sought to raise. If so, the next point was whether he was in accordance with sect. 22 (7) to treat the question as finally decided by the Minister, or to refer it to him for decision and meantime sist the present proceedings. For reasons which his Lordship explained, he thought that a refusal to grant a certificate under the schedule differed materially from a decision under sect. 10. The latter was a judicial act, which might be the subject of an appeal, and, if not appealed against, might have serious legal consequences. It ought, accordingly, to be expressed as a decision of a definite question or questions given by or under the authority of the Minister. He would accordingly make an appropriate finding, refer the questions at issue to the Minister, and continue the cause.

### Glasgow Students' Society.

A lecture was given to the Glasgow Incorporated Accountants' Students' Society on February 13th by Mr. John R. Davidson, C.A., Glasgow, on "Controlling Accounts." Mr. R. W. McKirdy, A.S.A.A., presided, and there was a large attendance. Mr. Davidson, having traced the evolution of controlling accounts from double entry book-keeping, said that the first essentials of double entry book-keeping were to be found in the journal and ledger. For the purpose of his lecture Mr. Davidson defined a controlling account as a compilation of the aggregates of the postings to individual accounts. A more elaborate definition was: a controlling account is one supported by analytical or subsidiary accounts, and presents in totals that which is presented in the analytical accounts in detail. Two particular results are to be obtained from controlling accounts. First, to substantiate the accuracy of the total of a list of balances without having recourse to detailed checking; and second, to permit of one ledger, or set of ledgers, being balanced independently of the others in use. Mr. Davidson explained various methods for dealing with the accounts of a mercantile business, and advocated the subdivision of the segregation of different classes of accounts in separate ledgers, and the accumulation of totals applicable to each ledger. The original ledger having been divided into sections, one section for sales, one for purchases, and one for general accounts, these again could be subdivided where necessary and the totals of these ledgers would leave a very much modified trial balance in the general ledger. Different methods of dealing with these accounts in the private ledger were explained, and the question of the control of fixed assets accounts was discussed at some length. In this connection Mr. Davidson said that in this country Scotland was considered the nursery of all good accounting. He thought that to some extent Scotland had remained in the nursery and had failed to apply the excellent principles to changing commercial conditions. Few manufacturers to-day in this country could tell at any given time the book value of any one particular part of their plant. They could probably show the book value *in cumulo*, but if a plant ledger were kept it would form a register of fixed assets, and manufacturers would soon realise the value of such a record, especially in dealing with income tax adjustment. Mr. Davidson was accorded a hearty vote of thanks for his instructive lecture.

# Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1923) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases (Scotland)*; S.L.R., *Scottish Law Reporter*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*.

The other abbreviations used in modern reports are A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division;

P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; P., President of Probate, Divorce and Admiralty.]

## BANKRUPTCY.

### Lamb v. Wright.

*Whether Possession by Bankrupt is "in his trade or business" or for pleasure.*

By sect. 38 of the Bankruptcy Act, 1914, "the property of the bankrupt divisible amongst his creditors . . . shall comprise the following particulars . . . (*c*) All goods being, at the commencement of the bankruptcy, in the possession, order or disposition of the bankrupt, in his trade or business, by the consent and permission of the true owner, under such circumstances that he is the reputed owner thereof."

The plaintiff sold a motor car under a hire purchase agreement, a clause of which provided that, if a receiving order was made against the purchaser, the vendor should be entitled to retake possession. The purchaser subsequently, before all the instalments had been paid, became bankrupt. The defendants took the car for the benefit of creditors, and, with the consent of the trustee in bankruptcy, defended an action brought by the plaintiff to recover possession under the hire purchase agreement.

It was held by McCardie (J.) that sect. 38 (*c*) did not apply to the case, because the plaintiff, as the true owner, had not consented or permitted that the bankrupt should employ the car in his trade or business; that the car, which had been acquired for private use and had been primarily employed for private purposes, was not a car "in the trade or business of the bankrupt"; and, therefore, the plaintiff was entitled to recover possession of the car.

(K.B.; (1924) 40 T.L.R., 290.)

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### Re Levy.

*Service of Order by Registered Post for attendance of bankrupt.*

If an order is served in a registered letter sent in accordance with the provisions of the Bankruptcy Act, 1914, sect. 146 and rule 90 made thereunder, by registered post sent to the bankrupt at his last known address, it is not necessary that the registered letter should reach the bankrupt in order to effect a good service.

(Ch.; (1924) 68 S.J., 419.)

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### Ellis & Co.'s Trustee v. Johnson.

*Measure of Damages for wrongful Sale of Shares pledged.*

Ellis & Co. (bankrupts) had wrongfully sold shares deposited with them by the defendant as security for a running speculative account on the Stock Exchange which the defendant had with Ellis & Co., and which shares, by agreement, were to be returned when the account was finally closed.

It was held that an account must be taken of what was due from the defendant to the estate of the bankrupts in respect of the sale and purchase of shares on his account, and an inquiry must be directed as to the value of the shares wrongfully sold at the date of the signing of the certificate, by reference to the mean prices ruling on the day before the signing of the certificate, and the value of the shares when ascertained to be set off against the balance certified to be due from the defendant.

(Ch.; (1924) 68 S.J., 303.)

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### Re Charters.

*Construction and application of Sect. 42 (1) of the Bankruptcy Act, 1914, where husband became bankrupt within two years of assignment.*

"Any settlement of property, not being a settlement made before and in consideration of marriage, or made in favour of a purchaser or incumbrancer in good faith, and for valuable consideration, or a settlement made on or for the wife or children of the settlor of property which has accrued to the settlor after marriage in right of his wife, shall, if the settlor becomes bankrupt within two years after the date of the settlement, be void against the trustee in the bankruptcy, and shall, if the settlor becomes bankrupt at any subsequent time within ten years after the date of the settlement, be void against the trustee in the bankruptcy, unless the parties claiming under the settlement can prove that the settlor was at the time of making the settlement able to pay all his debts without the aid of the property comprised in the settlement, and that the interest of the settlor in such property had passed to the trustee of such settlement on the execution thereof" (sect. 42 (1)).

By an indenture dated July 19th, 1920, a husband assigned his reversionary interest under his grandfather's will to his wife subject to a mortgage, and the wife expressly covenanted to pay the mortgage debt and interest, and to indemnify the husband against his liability in respect of the said mortgage. The husband became bankrupt within two years of the assignment. The trustee in the husband's bankruptcy now moved for a declaration that the assignment was void against him as being a void settlement under sect. 42 (1) *supra*.

It was held by Astbury (J.), in dismissing the motion, that there was ample consideration shown in the indenture to support the transaction in that the wife expressly covenanted to pay the mortgage debt and interest and to indemnify her husband and his estate from all claims which might be made for non-performance of the covenants, and that the wife was a purchaser for valuable consideration within the meaning of the sub-section.

(C.D.; (1923) B. & C.R., 94.)

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## LOCAL GOVERNMENT.

### R. v. Roberts; ex parte Scurr and Others.

*Audit of Accounts and Excess of Wages paid by Borough Council*

In the audit for 1921-22 of the accounts of a Metropolitan borough council, to which the powers and duties of the old district boards and vestries had been transferred, the district auditor of the Ministry of Health found that on a comparison with the weekly wages paid in 1914 to the employees of the council, increased by a bonus proportionate to the increase in the cost of living, the council's wage payments, which were based on a minimum wage of £4 a week for unskilled labour, showed an excess of over £25,000, and that they had exceeded by about £17,000 the amount that would have been paid if the agreed wages under various awards had been adopted. The auditor took the view that the council had not paid due regard to the interests of the ratepayers and had made payments in excess of those necessary to obtain the services required and to maintain a high standard of efficiency, and that the persons responsible had incurred an unjustifiable waste of the rate fund and had acted arbitrarily and contrary to law. In the result he disallowed £5,000 and surcharged that sum on the councillors whom he considered to be responsible. By sect. 62 of the Metropolis Management Act, 1855, "the board of works for every district under this Act, and the vestry of every parish mentioned in Schedule A to this Act, shall respectively appoint or employ or continue for the purposes of this Act, and may remove at pleasure such clerks, treasurers, and surveyors, and such other officers and servants as may be necessary, and may allow to such clerks, treasurers, surveyors, officers, and servants respectively such salaries and wages as the board or vestry may think fit." By sect. 247 (7) of the Public Health Act, 1875, as applied to London by the London Government Act, 1899, "Any auditor acting in pursuance of this section shall disallow every item of account contrary to law, and shall surcharge the same on the person making or authorising the making of the illegal payment, and shall charge against any person accounting the amount of any deficiency or loss incurred by the negligence or misconduct of that person, or of any sum which ought to have been but is not brought into account by that person, and shall in every such case certify the amount due from such person, and on application by any person aggrieved shall state in writing the reasons for his decision in respect of such disallowance or surcharge and also of any allowance which he may have made." A rule *nisi* was

obtained by certain of the councillors for a *certiorari* to quash the auditor's certificate of disallowance and surcharge on the ground, substantially, that the rate of wages was in the discretion of the council.

It was held that on the facts the borough council had exceeded its powers, and the auditor was right in making the surcharge, and therefore the rule must be discharged.

(K.B.; (1923) 156 L.T.J., 408.)

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## MISCELLANEOUS.

### A. L. Underwood, Limited, v. Bank of Liverpool and Martin's, Limited.

### A. L. Underwood, Limited, v. Barclays Bank, Limited.

*Cheque crossed in favour of Limited Company paid into private account of sole director.*

The sole director of a limited company indorsed for the company crossed cheques payable to the company and paid them into his private account with a bank in fraud of the company, and the bank collected the amounts due on the cheques and credited him with the proceeds. In an action brought after his death by the company against the bank for conversion of the cheques the bank claimed to be protected by sect. 82 of the Bills of Exchange Act, 1882, on the ground that they received payment for the cheques in good faith and without negligence, and they relied on the ostensible authority of the sole director to deal with the cheques as he had done.

It was held by the Court of Appeal that in view of the strangeness of the director's conduct the bank was negligent in not making some inquiry, and the company was entitled to recover.

(C.A.; (1924) 40 T.L.R., 302.)

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### Bourgeois v. Weddell.

*Evidence of Arbitrator is admissible before Umpire.*

An arbitrator was appointed by each of the parties to a contract for the sale of a consignment of meat which was to be shipped from Antwerp, and which, it was alleged, was not in accordance with the contract. The arbitrators, failing to agree, appointed an umpire.

It was held that the evidence of one of the arbitrators as to the condition of the meat was admissible in the proceedings before the umpire.

(K.B.; (1924) 68 S.J., 421.)

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## NEGLIGENCE.

### Nunan v. Southern Railway Company.

*Liability of Railway Company limited to £100 in respect of Workmen's Ticket does not apply to a claim under Fatal Accidents Act, 1846.*

On August 21st, 1922, N. was a passenger by defendants' train, and on arrival at his destination he crossed the line with other passengers, and owing to the fog N. and other passengers were killed.

The widow of N. brought this action under the Fatal Accidents Acts, 1846 and 1864, alleging that the death of her husband was due to the negligence of the defendants' servants. The defendants admitted the negligence, but alleged that at the time of the accident N. was a passenger travelling with a workmen's ticket, under which the liability of the company is limited to £100.

It was held that the Act of 1846 gave a new cause of action, and the measure of damages recoverable by the widow was different from that under which the deceased could have recovered if he had survived. The deceased, if he had lived, could have recovered damages, and the fact that his damages might have been limited by his contract was immaterial as regards the widow's claim.

(K.B.; (1923) 39 T.L.R., 514.)

## RATING.

### R. v. Llanhilleth Overseers.

*The Overseers may refuse to deposit a Valuation List which has not been properly made.*

A valuer was appointed with the consent of the guardians by the assessment committee to value the hereditaments in a certain parish, excluding railways, collieries, &c. He prepared a list of all the hereditaments in the parish, including railways, collieries, &c., which he entered at the existing figures. After he signed the list and handed it to the clerk of the assessment committee, the latter, with the valuer's consent, altered the assessment of the excluded hereditaments in conformity with the latest returns of output. The overseers declined to deposit the list so made and altered.

It was held by the Divisional Court that it was not a proper valuation list, and that the Court would not compel the overseers to deposit it.

(K.B.; 87 J.P., 189.)

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## REVENUE.

### Rowntree & Co., Limited, v. Curtis.

*Money set aside to provide for invalidity of workers is not a proper deduction in computing the profits of a business.*

The appellants, a firm of manufacturers, made provision for the invalidity of their workpeople by vesting in trustees £50,000, the income of which was to be used for the alleviation of distress and misfortune. Payments for the maintenance of the workpeople during invalidity constituted a continuous business demand in view of the manner in which the business was conducted. The actual amounts to be paid for invalidity had not been ascertained and were contingent and not capable of ascertainment at the time when the money was handed over to the trustees.

It was held that as the appellants, in setting aside the £50,000, had been partly actuated by charitable as well as by business motives, the payment was not made exclusively for the purposes of the appellants' business and, therefore, was not to be deducted in computing the profits of their business for the purposes of income tax.

(C.A.; (1924) 40 T.L.R., 363.)

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### Wilcock v. Pinto.

*Assessment of Non-Resident Persons in Name of Agent.*

The respondents, a firm in Egypt, used to sell their cotton in England through one K who was established in Manchester, at prices fixed by them. K used also to transmit applications for cotton to the respondents, who either accepted or refused them through K. If they accepted, K used to exchange documents with the buyers and a contract was thereby entered into. K was free to act for others, but in fact did not do so, and the respondents were not bound to send him any business at all. The cotton was shipped c.i.f. from Egypt and was delivered direct to the purchasers, payment being by bills drawn on the purchaser and discounted abroad.

It was held that in effect K was broker to the respondents, and was not therefore exercising a trade on their behalf in the United Kingdom, and consequently that the respondents could not be assessed through him to income tax.

(K.B.; (1924) 1 K.B., 304.)

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### Commissioners of Inland Revenue v. Eccentric Club.

*Construction of "Carrying on any Trade or Business or any undertaking of a similar character."*

In 1912 a company was formed for the purpose of taking over and carrying on a members' social club, with a club house and the usual amenities, including meals and refreshments. There was a surplus of income over expenditure but no profits were made on the sale of refreshments. The members of the club and of the company were identical.

The Court of Appeal held that the club was not carrying on any trade or business or undertaking of a similar character, as provided by the Finance Act, 1920, sects. 52 (2) and 53 (2), reversing the decision of Rowlatt (J.) ((1923) 67 S.J., 681), and therefore was not liable to corporation profits tax.

(C.A.; (1924) 68 S.J., 300.)